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Mr. Paul Druckman
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14 December 2011

Dear Mr Druckman,

Discussion Paper: Towards Integrated Reporting - Communicating Value in the 21st Century

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Integrated Reporting Council's (the IIRC's) Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century* (the discussion paper).

We welcome the discussion paper. It raises important and topical questions about the future of corporate reporting. We welcome the long-term view of the entity that underlies this discussion paper. Also, such a review is timely as many existing corporate reporting regulators and standard-setters reconsider the length and complexity of annual reports and what should and should not be included.

We agree that the current corporate reporting model can be improved and that action to explore its improvement should go beyond traditional financial reporting participants and involve a wider set of international stakeholders. Furthermore, we agree that the principle of stewardship should encompass value creation and the costs incurred to create that value across all the resources and capitals used by an entity.

We acknowledge that the primary purpose of the discussion paper is to initiate a dialogue about the future direction of and framework for corporate reporting and that it is the first step in a comprehensive process to develop a new (integrated) business reporting model. We find that the discussion paper reads more as guidance on how to produce an integrated report currently without fully articulating why such a report should be produced. We acknowledge that the integrated reporting debate is at an early stage and that the concepts outlined in the discussion paper are necessarily at a very high level. Evidence of the debate being at an early stage is that the discussion paper makes a number of assertions about the need for such a report without referencing any substantive research to support those assertions. A programme of further research to support the development of the Framework and to consider further the concepts outlined in the discussion paper should be performed therefore, concurrently with the other proposed initiatives such as the Pilot Programme. Such research will also be necessary to evidence an assessment, as appropriate, that the benefits of integrated reporting outweigh the costs.

We think the following steps are necessary to further the IIRC's goal: research into and development of a 'conceptual framework' for integrated reporting which not only identifies but defines the building blocks of integrated reporting with accompanying rationales. Relevant building blocks would include amongst others:

- the objective of integrated reporting
- the primary user group
- the principle of stewardship of the capitals and resources used by the entity in the context of integrated reporting (which should be a Guiding Principle)
- the elements of integrated reporting including an assessment of performance or relevant performance metrics in respect of those elements
- the reporting entity
- the defining characteristics or attributes of information for inclusion in an integrated report, which would consider relevance, materiality and quality, amongst others, and
- the standards for disclosing the integrated report in a digital format (e.g., XBRL).

For the integrated reporting model to be successful and capable of practical and consistent application we believe a clear definition of and consensus on these fundamental concepts will be necessary. We believe that particular areas requiring review and further work include the primary user group, the elements of integrated reporting (the capitals) and agreement on the level of assurance to be attached to the various components of an integrated report. We comment on these in the Appendix to this letter.

The insight to be gained from the Pilot Programme and from experience of mandatory integrated reports in South Africa will assist in developing the integrated reporting concepts further. This period of innovation and experimentation is an important element in developing and refining integrated reporting and identifying significant issues that potentially stand in the way of its ultimate global success.

We support coordinated international action in this area to avoid duplication of initiatives and regulatory requirements around the world. We also believe that such an approach is critical to ensure that any revised business reporting model has the appropriate authority.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884 or Nick Main in London at +44 (0)20 7303 2486.

Yours sincerely,

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Global Leader Sustainability
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Appendix

Responses to the Invitation to Comment

Discussion Point 1: The World has Changed – Reporting Must Too

Q1 (a) Do you believe that action is needed to help improve how companies represent their value-creation process? Why/ why not?

(b) Do you agree that this action should be international in scope? Why/ why not?

We agree with the fundamental direction of the IIRC's analysis: that the current corporate reporting model can be improved and that action to explore its improvement should be coordinated and international in scope.

The depth and breadth of corporate reporting continues to expand, driven primarily by regulation, the information needs of a wide variety of users, and in response to the ever increasing complexity of the global business environment. Detailed technical reports, such as those based on IFRS and industry regulations, will continue to play an important role and we do not foresee that the Integrated Report will fully replace or render these reports less relevant. These detailed technical reports are targeted at specific, expert stakeholders and should be deployed in a manner consistent with such purpose, for example, in support of more high-level and aggregated information supplied in the Integrated Report.

We support the notion that the Integrated Report should become the primary report that will tell the overall story of the company by providing material and relevant information specifically aimed at the general needs of reasonably informed and knowledgeable investors, within the context of an ever evolving business, social and physical environment.

The discussion paper makes a number of value statements, for example "the world has changed – reporting must too". While we might agree with such statements, appropriate and targeted research efforts to inform the development of a more detailed framework are necessary.

The discussion paper is at a high level and many matters of detail have yet to be developed further. Such matters include, for example:

- The objective of integrated reporting: although the discussion paper states that "an integrated report should be an organisation's primary reporting vehicle" it is still ambiguous, in our view, about whether it intends combining existing reporting strands or to make more fundamental changes.
- Links to existing research and an effects study supporting the development of an International Integrated Reporting Framework (an 'IR Framework').
- A timetable for the introduction of integrated reporting. It is important that all stakeholders understand the intended timetable so that international action in this area can be co-ordinated and avoid duplication of initiatives and regulation.

We support the primary purpose of the discussion paper as initiating a dialogue about the future direction of corporate reporting. It is the first step in a comprehensive debate on the development of a new corporate reporting model. We think the following steps are necessary to further this debate:

- Research into and development of a 'conceptual framework' for integrated reporting which not only identifies but defines the building blocks of the model, i.e. what it is designed to achieve, with supporting rationales. Relevant building blocks would include amongst others:

- the objective of integrated reporting
- the primary user group, as explained above
- the principle of stewardship of resources and capitals in the context of integrated reporting (which should be a Guiding Principle)
- the elements of integrated reporting including an assessment of performance or relevant performance metrics in respect of those elements
- the reporting entity
- the defining characteristics or attributes of information for inclusion in an integrated report, which would consider relevance, materiality and quality, amongst others, and
- agreement on the standards for disclosing an integrated report in a digital format (e.g., XBRL).

For the integrated reporting model to be successful and capable of practical and consistent application we believe a clear definition of and consensus on these fundamental elements will be necessary. We believe that particular areas requiring review and further work include the primary user group (please see our response to question two), the elements of integrated reporting (the capitals) as highlighted in our response to question six and agreement on the level of assurance to be attached to the various elements of an integrated report (question nine).

The insight to be gained from the Pilot Programme and from experience of mandatory integrated reports in South Africa will assist in developing integrated reporting concepts further. This period of innovation and experimentation is an important element in developing and refining integrated reporting. It should also provide critical evidence about whether the value creation approach to corporate reporting provides more useful information to users than the current corporate reporting model.

In addition, we believe that the development of the IR Framework should benefit from the opportunities modern information and communications technologies provide. Integrated reporting will be able to take advantage of digital media to facilitate accurate, but also more flexible, multi-dimensional views of corporate performance.

The adoption of globally-used open standards (e.g. XBRL) provides a solid foundation for defining both logical and technical meaning to reporting concepts, thereby leveraging the current use of this standard in financial reporting (including the US GAAP and IFRS taxonomies) and non-financial reporting (such as the GRI taxonomy). The development of an IR Framework could be informed by the simultaneous development of an IR XBRL Taxonomy. For example:

- key reporting definitions could be tested from both a logical and technical perspective to ensure that they can serve both digital information exchange and traditional corporate reporting. This could facilitate aligning reporting definitions across the components of the IR Framework
- reusing existing reporting definitions from existing taxonomies (including the GRI, IFRS, and US-GAAP taxonomies)
- providing room for local extensions
- producing a tangible deliverable (an IR Taxonomy) that can be adopted by reporting organisations and regulators, and
- providing a solid versioning standard that enables the management of past, present and future standards of integrated reports.

This leads us to consider that a phased approach to the development of the IR Framework might be appropriate, with different projected timelines and milestones for completion of different components. If the framework concepts were exposed for public comment in separate components or phases, this would permit all stakeholders and interested parties time to consider each phase or aspect of the proposals fully and provide their input as appropriate.

Q1 (b) Do you agree that this action should be international in scope? Why/ why not?

An international approach is necessary to ensure that any revised corporate reporting model has authority and acceptance. While the concepts espoused in the discussion paper are familiar to entities active in developed capital markets and to stakeholders in certain democracies, they may be less familiar or acceptable beyond these boundaries. The experience of developing International Auditing and International Financial Reporting Standards has shown conclusively that international acceptance will not be achieved by imposing a solution, but by working in a collaborative and inclusive manner, involving as many jurisdictions as possible.

Thus, we encourage the IIRC to involve as many stakeholders as possible as it develops its proposals further. This involvement would include developing countries with legal and political systems different from developed countries as well as securities and markets regulators and others with an interest in corporate reporting.

Discussion Point 2: Towards Integrated Reporting

Q2 Do you agree with the definition of Integrated Reporting on page 6? Why/ why not?

We think that, at this stage, it is more important to articulate clearly the objective of integrated reporting and to identify the practical implementation issues associated with that objective than to seek to define integrated reporting. This will involve a significant degree of innovation and experimentation.

Fundamental to the identification of a robust objective is the identification of the primary user. In our experience, questions regarding the filter to be used to determine the information included in an integrated report are helped when we can answer the question 'to whom is the entity reporting?' This is because different information can be relevant to different user groups and different user groups will assign different materiality thresholds to different information content. Although we acknowledge that integrated reporting seeks to communicate with all stakeholders, at this stage, and until further research is performed, we agree with the IIRC that reasonably informed and knowledgeable investors taking a longer-term view of the entity's sustainability in all its dimensions should be identified as the primary user group. We believe this could be made clearer in the discussion paper.

We think that once the objective and primary user of integrated reporting are confirmed, it would be possible to identify the building blocks/concepts underlying integrated reporting.

Discussion Point 3: An International Integrated Reporting Framework

Q3 Do you support the development of an International Integrated Reporting Framework? Why/ why not?

Consistently with our response to Question 1, we support the development of an IR Framework.

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Q4 (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/ why not?

(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?

In principle, the concepts underlying integrated reporting should be equally applicable to small and medium-sized enterprises, the public sector and not-for-profit organisations. Indeed, the public sector and private sector not-for-profit entities may be an important area as the IIRC develops its proposals, given their broader notions of accountability to stakeholders. However, an effects (cost-benefit) analysis would be required to determine the extent to which integrated reporting should apply to smaller and medium-sized entities and not-for-profit organisations.

Where it is concluded that an IR Framework should apply to all entities large and small, public and private, as well as not-for-profit, scalability of the IR Framework will be necessary to ensure its requirements are proportionate for small and medium-sized entities and not-for-profit organisations. We believe this could be achieved through application of the defining characteristics or attributes of information for inclusion in an integrated report.

For these reasons, at this stage, we do not agree with an initial sole focus on integrated reporting by larger companies. While the impact of large international companies on society at large is probably more obvious, it is possible for smaller entities and not-for-profit organisations to have a significant impact. The size of an entity alone is not an appropriate attribute for determining whether an entity should prepare an integrated report. Rather, we think that a combination of attributes including size, industry, the jurisdictions in which it operates and public interest in the entity should be considered and an analysis of whether the benefits of integrated reporting outweigh the costs would be required to determine the extent to which integrated reporting should apply to small and medium-sized entities and not-for profit organisations.

Discussion Point 4: Business Model and Value Creation

Q5 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?

In our view, the organisation's business model and its ability to create and sustain value in the short, medium and long term are appropriate as central themes for reporting.

However, we believe that the discussion paper places too much stress on the entity's future performance. While we recognise that future value creation is important to long-term investors and stakeholders, an entity's directors and senior management are also accountable to investors and resource providers for their stewardship of capitals and resources already committed to them. Stewardship should be at the core of integrated reporting. The principle of stewardship should cover value creation, the costs incurred to create that value, and how a capital is transformed from one into another, across all the capitals and resources used by an entity. In addition, information about an entity's past often provides a good basis for developing forecasts about the future. This holds not only for financial but also non-financial items, such as commitment to sound corporate governance, social responsibility and similar matters.

The "value concepts" in the discussion paper are described in very high-level terms. Greater definition and development of these concepts are required if "value creation" is to be used as the foundation of an integrated reporting model. In addition, any discussion of value creation in an integrated report should be balanced. The focus in the discussion paper on value creation can be read to imply that the IIRC's model is one-sided, and that it does not acknowledge, as we think it should, that, in addition to creating value, businesses consume value or incur costs to create that value. In short, inherent in value creation is the fact that other resources are consumed. We believe that users are interested in understanding the efficiency of entities and their ability to add value based on how they use the resources available to them.

The ‘business model’ approach will enable a focus on an entity’s value-creation activities and wider value-drivers and business risks, hence should be a more visible connection between how the entity is managed and how these activities are reported.

Q6 Do you find the concept of multiple capitals helpful in explaining how an organisation creates and sustains value? Why/ why not?

We understand that the concept of capitals, and in particular, the word ‘capital’ has been used intentionally by the IIRC to create a bridge between the existing reporting concept of financial capital and the other resources on which a business depends and has an impact, described as the natural, intellectual, social, human, and manufactured capitals in the discussion paper. We also acknowledge that using this concept of capitals has the benefit of making people think differently to consider new and a wider set of business risks and value drivers.

We understand that the IIRC’s aim is that integrated reporting should integrate existing business reporting practices. However, the use of the term capitals raises a number of questions and concerns, for example, whether the capitals are to be understood, defined and applied in a manner consistent with financial capital. We set out some areas where we see potential challenges below. For these reasons, we think further work and revised and/or stronger definitions of the elements and concepts of integrated reporting will be needed for integrated reporting to complement existing business reporting.

- *Stewardship*. Today’s corporate reporting concept of stewardship is understood and applied in the context of management providing an assessment of the performance of the business using the resources entrusted to it by capital and other finance providers and controlled by the business. It does not extend to other resources or capitals not controlled or owned by the business. As such, the concept of stewardship will need to be revisited and acquire a different meaning to apply in a multi- and non-owner capital context.
- *Performance*. A key question is how an entity communicates responsibility and accountability in respect of capitals it uses but does not control. Critical to this is how management should assess its performance in respect of each of the capitals it uses or on which it has an impact, and how it identifies and assesses business risks and value-drivers for each capital. For example, how does an entity measure performance consistently across the capitals without confusing the users? How does an entity measure performance (and stewardship) in respect of the other capitals, for example, its use of water, or its impact on a local community or wider society by way of example?
- *Different existing concepts of capital*.
    - Manufactured capitals as described in the discussion paper (buildings, equipment and infrastructure) are captured by financial reporting as tangible fixed assets or property, plant and equipment, and intellectual capital (intellectual property, brands) as intangible assets, which are also recognised as assets controlled by the entity. If, under integrated reporting, manufactured and intellectual capitals are to be wider, this needs to be clarified and understood by preparers and other stakeholders. For example, the IIRC should clarify that the capitals include not only “assets” of the entity but also those global capitals and world resources for which it is appropriate to evaluate the entity’s impact.
    - Clearer definitions of the capitals will also be required as the different terms may mean different things to different people, particular in different industry sectors. For example, ‘manufactured capital’ can be understood in terms of buildings, equipment

or infrastructure constructed or produced (i.e. physical capital), but also in terms of 'manufactured know-how', including software or proprietary assets such as pharmaceuticals. Such "manufactured know-how" may be recognised as an intangible asset for financial reporting purposes rather than as "intellectual capital", i.e. there is a risk of "double counting" of the capital concepts both in and outside of the financial information in the integrated report This double counting may need to occur in order to explain properly an entity's performance across multiple dimensions and different applications of the definitions may be required in different industry sectors, in which case this should be made clear to preparers, users and other stakeholders, as appropriate.

- Where the concept of capital encompasses elements not controlled by the reporting entity, defining boundaries for non-financial value drivers and business risks will be important. A clear concept of materiality as it applies to non-financial items will be necessary to identify those factors of most significance to the entity's performance and the most significant impacts and consequences of the entity's activity on the natural, intellectual, social and human capitals.

Finally, if the integrated reporting model uses the term 'capital' the IIRC should clarify how the term should be applied at the level of the individual reporting entity, what each capital encompasses and how an entity's strategy or performance/movement in a capital is to be assessed.

Ultimately, we believe integrated reporting should address in a balanced manner how value is created, the costs incurred to create that value and the wider factors (business risks and /or value drivers in respect of each capital) impacting the entity's performance, prospects and strategy.

Finally, we note that key performance indications (KPIs) that quantify and explain value-drivers and resources other than the financial capital are generally either not widely accepted or in their infancy. For an IR Framework to be applied on a consistent basis, clearer definition of KPIs and the development of appropriate metrics is necessary. Standard or best practice key performance indicators, applied consistently across industry sectors, would enable evaluation of one entity's performance with respect to a particular value-driver or resource with another.

Consistent reporting of all aspects of an entity's financial and non-financial performance using consistent parameters could yield significantly improved information for companies, allowing benchmarking and evaluation activities that are not currently possible and hence improve and expand the information used to inform decisions.

Discussion Point 6: The Building Blocks: The Guiding Principles

Q7 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?

In our comments on Q1 and Q5 above, we suggested that stewardship of capitals and resources should be a Guiding Principle and questioned the exclusive emphasis on the future suggested in the discussion paper. We would therefore question 'Future orientation' as a guiding principle without stewardship. Reliability and accountability inherently embody a retrospective as well as a prospective aspect.

We agree with the direction of the discussion paper, but in our view it needs more rigour when defining the qualitative characteristics or attributes of information to be included in an integrated report. Further research and guidance on application of the guiding principles to non-financial information is required and particular areas for development may be highlighted by the IIRC's Pilot programme.

Strategic focus

We agree with the basic premise that strategic focus and orientation on management's expectations about the future prospects of an entity should drive the preparation of an integrated report. However, an integrated report should balance future-oriented discussion and information with a discussion of the entity's stewardship of resources already provided.

Connectivity of information

We support the principle of connectivity between the narrative, numerical, and other information included in an integrated report, and see this as one of the principal objectives and benefits of integrated reporting. This is consistent with existing requests today in several jurisdictions for connectivity between the management commentary section and the financial statements in an annual report. Likewise, we agree that connectivity between all the resources and capitals, value drivers and business risks is important and enables an assessment of management's stewardship of the wider assets and obligations of the entity as well as its vision for the future. The experience in South Africa is that this concept is critical to the value of integrated reporting, but particularly difficult to implement.

Future orientation

Subject to our concern expressed above that future orientation be balanced by an acknowledgement of stewardship of resources and capitals, we agree that management's expectations about the future and other information about the entity's prospects and obligations are important to making informed, long-term choices about the entity.

Forward-looking statements in corporate reports are and will be influenced by the regulatory and legal environment within which the entity operates. It is likely that such information will need to be accompanied by suitably cautionary language. As the IIRC elaborates the Guiding Principles the involvement of regulatory agencies will be important.

Responsiveness and stakeholder inclusiveness

While we agree with a single primary user focus, with the primary user being the long-term investor, for the reasons set out in our response to Question 2, we acknowledge the importance of dialogue and engagement with other stakeholders. Indeed we think other parties, such as regulators and members of the public other than investors may find the information in integrated reports helpful. Defining a primary user group will assist the IIRC to focus the IR Framework more effectively but that is not to say that other stakeholders are irrelevant. As noted in our responses to Questions 2 and 6, although we think that reasonably informed and knowledgeable investors taking a longer- term view of the entity's sustainability in all its dimensions should be identified as the primary user group, we acknowledge that integrated reporting should and will communicate with all stakeholders.

Conciseness, reliability and materiality

The qualitative characteristics of integrated reporting proposed in the discussion paper while laudable and important will need to be further fleshed out in order to be operational. As we noted in our response to Question 2, *relevance* is a fundamental characteristic of the information to be included in an integrated report. Materiality, as in financial reporting, is a *subset* of relevance. While distilling relevant information as concisely as possible is desirable, we do not think that conciseness can itself be an operational qualitative characteristic. It is critical that materiality as it applies to non-financial information, is defined in a manner that allows consistent application, in order for integrated reporting to succeed.

Furthermore, we believe there should be a requirement that any information reported is reported faithfully in a clear and unambiguous manner. We therefore think an additional requisite qualitative characteristic is "faithful representation." To represent faithfully, as far as possible, information should be complete, neutral and free from error. In our view, therefore, reliability is a subset or supporting characteristic of faithful representation.

Finally, the guiding principles should recognise that a pervasive constraint on the financial and non-financial information that can be provided by corporate reporting is cost. Integrated reporting will impose costs and it is important that these costs are justified by the benefits that integrated reporting will provide. As we have noted elsewhere in this response, we believe that an effects (cost-benefit) analysis is an essential factor in developing an IR Framework.

Discussion Point 7 - The Building Blocks: The Content Elements

Q8 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?

We support the proposed content elements. They are very similar to the existing reporting requirements for listed or large companies and to the elements of management commentary in the IASB's IFRS Practice Statement *Management Commentary: a framework for presentation* published in December 2010. As noted in our response to Q4, we encourage the IIRC to consider the scalability of the content elements when applied to the integrated reports of small or medium-sized entities and not-for-profit organisations.

Although the discussion paper elements largely resemble the content elements of the IASB's Practice Statement, Key Performance Indicators (KPIs) and Key Resource Indicators (KRIs) are subsumed within the 'performance' content element and there is no requirement that the KPIs identified should be those critical ones that management uses to evaluate the entity's performance against stated objectives.

In our view, KPIs and KRIs are critical to management's analysis or understanding of past performance (results) and its "future outlook". We believe, consistent with the IASB's content elements, that the critical KPIs and KRIs management uses to evaluate the entity's performance against its stated objectives (i.e. past, current and future performance) should be given separate emphasis as a standalone content element. In our view such performance measures and indicators are the tools that articulate the connections between the different components of the organisation's business model, external factors that affect the organisation, and the wider resources and relationships on which it and its performance depends. That is, they are critical to ensuring connectivity of information: a guiding principle the proposed IR Framework.

Discussion Point 9: What Will Integrated Reporting Mean for Me?

Q9 From your perspective as <u>a key stakeholder</u>:

(a) Do you agree with the main benefits of Integrated Reporting as presented in the Discussion Paper? Why/ why not?

(b) Do you agree with the main challenges and responses of Integrated Reporting as presented in the Discussion Paper?

The following responses are provided from our perspective as an assurance provider.

Because we expect integrated reports to become important to preparers and users, we believe it is important for an integrated report to be subject to independent assurance in order to provide credibility to the information included therein. This is because independent assurance will facilitate enhanced quality of an integrated report and increase relevance to users. The quality of information is fundamental to the success of integrated reporting.

The integration of information currently outside a corporate report will present challenges in providing assurance on corporate reporting.

In selecting the components of an integrated report to be subject to assurance, we suggest the IIRC consider whether the nature of the content is capable of consistent evaluation or measurement against the identified criteria, and can be subjected to evidence-gathering procedures.[1] Likewise, in defining the criteria against which such content will be evaluated or measured, the IIRC should consider whether such criteria are relevant, complete, reliable, neutral, and understandable.[2]

Once an IR Framework has been developed that includes a clear definition of both the integrated reporting content and the related criteria, the appropriate form(s) of assurance can be defined and developed. It is critical that the IIRC work closely with the IAASB and other assurance standard-setters and providers as methodologies, standards, and reporting mechanisms for integrated reporting are developed. It will be important to consider the levels of assurance for historical versus future-orientated information included in the report as well as for the content of the integrated report as a whole.

Depending on how the IIRC defines the content to be included in the integrated report and the criteria against which such content will be evaluated or measured, it is possible that the level of assurance to be obtained will vary between content elements from reasonable assurance to limited assurance to no assurance. If varying levels of assurance are required, it will be important for both the integrated report and the related assurance report to be structured in such a way as to distinguish clearly between those components on which each level of assurance (or no assurance) is provided. This is not unlike today's reporting in which the narrative reporting section of an annual report is not 'assured' but subject to being read by the statutory auditor to identify any material inconsistencies, if any, with the audited financial statements.

Furthermore, extension of internal quality controls and audit processes currently applied to financial record keeping and data control to the additional information required by an integrated report would also enhance quality. If entities capture this information in a rigorous manner, better information should be provided to directors and senior management as they assess the performance and business risks of the entity. This issue should be considered in the context of corporate governance requirements that boards of directors are responsible for the integrity of the integrated report and internal audit functions should provide an assessment of the system of internal control as it relates to both financial and non-financial information.

Q10 (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?

(b) What priority should be afforded to each action? Why?

We believe that, until a robust IR Framework is developed, it will be difficult for integrated reporting to obtain maximum global reach and support. We therefore think that development of the IR Framework through further research and investor, preparer, assurance-provider and other stakeholder engagement should be the top priority.

In particular, engagement with investors and understanding their needs is critical to the success of any future revised corporate reporting model. Investor demand for a wider information set, by applying the value creation approach put forward in the discussion paper has not been evidenced at this stage; what the investor wants should be at the forefront of the forward direction the IIRC

[1] See IAASB, *International Framework for Assurance Engagements,* paragraphs 31-33 for additional information.

[2] See IAASB, *International Framework for Assurance Engagements*, paragraphs 34-38 for additional information.

takes. As noted in our response to Question 1, a dialogue needs to be had with users to evidence that there is a clear business case for integrated reporting as developed by the IIRC.

The IIRC should coordinate its work with that of the many other bodies and organisations working in the fields of emerging measurement and reporting practices for disclosures relevant to integrated reporting, including the Global Reporting Initiative (GRI) and the Climate Disclosure Standards Board (CDSB). Effective collaboration with these bodies as appropriate during the Pilot Programme and subsequently may assist with exploring further and understanding those areas in which there continues to be significant measurement issues or concerns regarding reliability of non-financial data.

We have questions about how adoption of an international integrated reporting framework at the level of a country or regulator would or should work. To ensure the efficiency and operation of capital markets, regulators have a responsibility to monitor events and introduce new requirements in response to events. As such, we question whether simple compliance with an international framework would be sufficient to meet a local regulator’s needs. The Framework proposed in the discussion paper is high-level, with guiding principles and primary content elements and a local regulator might wish to specify how those primary content elements are met, in its view, hence in its jurisdiction. For example, much of the reporting requirements for listed or large companies today are dictated by local stock exchange or local companies’ or securities’ law requirements. It is not clear whether the IIRC envisages global regulation in this area or how this would be achieved. The development of institutional arrangements for the ongoing governance of integrated reporting would be critical to such a remit and we would stress that experience with the adoption around the world of a single set of accounting standards (IFRSs) as set by the International Accounting Standards Board (IASB) has shown that an international standard-setter must develop a clearly-defined mandate and robust governance and oversight if it is to be responsive and accountable to a global audience.

Q11. Do you have any other comments that you would like the IIRC to consider?

Although it will vary among jurisdictions, the liability of directors, management and assurance providers associated with an integrated report needs consideration. For example, in South Africa, the board of directors attest to the integrity of the integrated report.

There is an on-going debate about the extent of financial information to be provided in the integrated report. The IR Framework should address the minimum requirement for financial information. For example, in South Africa the minimum requirement is to comply with IAS 34.