



2 December 2011

Sir Michael Peat
Chairman
International Integrated Reporting Committee
Email: dpresponses@theiirc.org

Dear Sir Michael

Towards Integrated Reporting – Communicating Value in the 21st Century

1. Thank you for the opportunity to submit our comments on the International Integrated Reporting Committee's (IIRC) Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century*.
2. The External Reporting Board (XRB) is an independent Crown Entity, responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand. Our Outcome Goal is "*Establishing accounting and assurance standards that engender confidence, assist international competitiveness, and enhance accountability*". That means that we focus on international projects that work to improve reporting generally.
3. We congratulate the IIRC on the issue of its Discussion Paper. We consider that the Discussion Paper represents an important first step for international discussion of issues relating to integrated reporting.

Relevance of Integrated Reporting to New Zealand

4. Integrated reporting is of relevance to New Zealand and to the XRB as a standard setter. This is because integrated reporting is about better, more concise communication about an entity's use of resources, its activities, its impact on the environment/society and its ability to sustain itself in the short, medium and long term. This is very close to what accounting standards and accounting information aim to do. Moreover, the line between many of the areas specified in the Discussion Paper are areas that are linked to and are also increasingly being covered by financial reporting standards, for example, information about risks, business models and future-oriented financial information.
5. The release of the IIRC's Discussion Paper is timely to the extent that it follows recent events like the global financial crisis (GFC) and the BP Gulf of Mexico oil spill. These events, among others, have raised the public's awareness of a number of the aspects that the IIRC is trying to deal with. For example, the GFC raised awareness about the global impact of the activities of entities and issues relating to business models, governance, remuneration, risks, the complexities of financial reporting and the short-term view taken by many entities. The BP oil spill raised issues about the impact of entities on the environment and on parties who may not be connected to the entity but whose livelihoods are nevertheless impacted by the activities of an entity. In New Zealand, the 47,000 tonne Rena that ran aground in the Bay of Plenty coast in October this year resulted in hundreds of tonnes of sticky, toxic oil leaking into the sea (and on to beaches), causing one of New Zealand's worst environmental disasters. While integrated reporting would not have necessarily prevented these disasters, it may have

forced entities to consider their major risk areas/strategies, take precautionary measures and make contingency plans, and disclose them.

6. In New Zealand, the Sustainable Future Institute published a report on its survey, *Integrated Annual Report Survey of New Zealand's Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues*¹ in January 2011. The Sustainable Future Institute's survey shows a growing awareness by New Zealand entities of many of the issues relating to integrated reporting.
7. The XRB is keen to monitor developments in this area. Unlike some other jurisdictions, other than for listed entities, New Zealand has no requirements for a Management Discussion and Analysis (MDA) to be included in an entity's financial statements. The concepts of reporting articulated by the IIRC in the Discussion Paper is one way that we can further develop reporting by entities in a comprehensive manner, rather than on a piecemeal basis.
8. While we understand non-quantitative "soft metrics" are not widely used by financial analysts at the current time, this may change as a result of the GFC and similar events and the focus on ethical investing by some investors.
9. We see integrated reporting an important reporting development in our environment, albeit an evolutionary, long-term one.

Specific Comments

Role of IIRC and future institutional arrangements

10. We are pleased to note that the IIRC has taken a number of steps to put in place new, transitional governance arrangements as it moves from its initial start-up phase to the consultation and development phase of its work that is taking place over the next two years. Notwithstanding this, one of our concerns with the future development of integrated reporting centres on the absence of longer term institutional arrangements, particularly the institutional arrangements after the IIRC has completed its Conceptual Framework and Pilot Programme.
11. While the International Accounting Standards Board (IASB), as an international standard-setter, may appear to be a logical successor to the IIRC to carry on the implementation of the principles of an integrated reporting framework, we would not support the IASB undertaking such a role at this time. We do not consider that the IASB should be distracted from its core task of developing a set of high quality international financial reporting standards. Much important work remains to be done in that area by the IASB. Notwithstanding that there are many overlaps in the information presented in the financial statements, there are many issues to integrated reporting that are outside the ambit and expertise of the IASB. We consider that the IIRC should liaise with the IASB, and that IASB should monitor developments in integrated reporting. However, the IASB should not be the organisation that has primary responsibility for the further development of integrated reporting.

¹ The report is accessible at <http://sustainablefuture.info/includes/download.aspx?ID=114348>.

Parameters of integrated reporting and role of financial reporting

12. It is not clear to us what the IIRC considers to be the parameters of an integrated report. While the Discussion Paper sets out guiding principles and content elements, the parameters of the information associated with each of those elements is unclear. Much of the types of information specified under each of the elements are strategic and could be commercially sensitive. Others are future-oriented and may be unknown to the organisation, for example, potential risks. For such types of information the limits to disclosure could be difficult to determine. Without some indication of the parameters, it will be difficult to interpret information (or the lack of) in an integrated report. For example, the non-disclosure of certain information about risks may mean that the organisation:
 - a. sees no risk in a particular area; or
 - b. is unaware of the risk and therefore has not identified and disclosed it; or
 - c. considers the information to be commercially sensitive and therefore has not disclosed it; or
 - d. has identified the risk but has chosen not to disclose it.
13. We consider it necessary for the framework to set out clearly the areas, boundaries and scope of the matters that are to be contained in an integrated report. This is necessary in order to set minimum disclosure requirements as well as to ensure that the information disclosed by entities is comparable across entities. Leaving it to entities to decide what to disclose may not always ensure that proper disclosure is made. In New Zealand, the Sustainable Future Institute's survey indicated that organisations would not publish integrated reports unless they are required to do so. We consider that specific parameters will need to be set to ensure that information, where relevant and material, is disclosed.
14. In this context, it is also not clear to us from the Discussion Paper where the IIRC see financial reporting fitting into an integrated report. We consider that the forthcoming framework should make it clear where financial reporting fits within the integrated reporting framework, given that the IIRC's aim is for the integrated report to be an entity's primary reporting vehicle.

Challenges

15. We note the many challenges that lie ahead. The Discussion Paper sets out Strategic Focus as one of its Guiding Principles and the disclosure of strategic objectives and strategies to achieve those objectives as one of its Content Elements. These challenges include:
 - a. information about strategies that an entity has in place, or plans to implement, in order to achieve them, may be commercially sensitive. This will inhibit the disclosure of such information in an integrated report;
 - b. determining the relevant level of assurance of an integrated report; and
 - c. the need, at this early stage of development of integrated reporting, to balance voluntary reporting of information and/or performance measures by entities with the need to have standardised disclosures for comparability purposes.

16. Our responses to the specific questions raised in the Discussion Paper are set out in the attached Appendix.

Yours sincerely

Graeme Mitchell
Temporary Chair
External Reporting Board

Responses to Specific Questions in the Discussion Paper

The World has Changed – Reporting Must Too (page 4)

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

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

- (a) We agree that action is needed to help improve how organisations represent their value-creation process. We agree with the Discussion Paper's view that the complexity of an entity's value-creation process means that disclosures should be a combination of different strands of information covering financial, management commentary, governance and remuneration and sustainability reporting. While such information may be separately required in many jurisdictions, the information is not necessarily always brought together for reporting purposes as a coherent whole.
- (b) We agree that this action should be international in scope, given the globalisation of businesses and the global consequences of those activities.

Towards Integrated Reporting (page 6)

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

We agree with the general concept of integrated reporting as set out on page 6 of the Discussion Paper. We consider that the definition on page 6 can be improved by a minor re-wording of the words in the first sentence from "...brings together the..." to "...is the reporting of..." to move it away from the process of drawing up the information.

An International Integrated Reporting Framework (page 8)

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

We support the development of an International Integrated Reporting Framework. We note the many frameworks and guidelines on environmental, social and governance disclosures that are currently available. We consider that an international framework that sets out, in principle, the parameters of integrated reporting and the criteria for deciding what information should be reported, their relevance, materiality, consistency and reliability would be most useful.

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 organizations?*

- (a) We do not agree that the initial focus of the Framework should be on reporting by larger companies and on the needs of their investors. We note that one of the purposes of integrated reporting is to require companies to disclose information not just to their investors but to their wider stakeholders (employees, customers and society in general).

In our view it will be short-sighted for the Framework to be developed with a focus limited to large companies and their investors. This goes against the purpose of integrated reporting which is to provide information to investors and other stakeholders affected by an organisation's existence. It is also inconsistent with integrated reporting's stewardship function which extends beyond the stewardship of financial capital to the stewardship of other capitals (manufactured, human, intellectual, natural and social). The users of such other capitals may not necessarily be the investor.

The IIRC may wish, in implementing its future proposals, to do so in phases and start with the larger companies and focus on the needs of investors of for-profit entities. However, the underlying concepts in the Framework should not be written with such a narrow focus. To do so may limit the types of information that an entity should disclose given that the information needs of investors may not always be aligned with those of other stakeholders. Further, a Framework and specific requirements developed for large companies may be excessive when applied to smaller and medium enterprises or may overlook issues in the not-for-profit private and public sectors.

There is also a need to prevent the risk that, once issued, the Framework will be locked in and be difficult to change to widen its focus in the future.

- (b) We consider that the general concepts underlying integrated reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organisations.

However, if the Framework is developed with a focus on investors, it may become inappropriate and inapplicable for the public sector and not-for-profit sectors. This is because the stakeholders in those sectors extend beyond investors and capital providers to include service recipients, donors and the public in general.

Business Model and Value Creation (page 10)

Q5. Are: (a) the organization'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?

We consider that the organisation's business model and its ability to create and sustain value in the short, medium and long term, is appropriate as central themes for the future direction of reporting. This is because how an entity chooses to organise itself to operate, create value (for its investors, and possibly other stakeholders) and remain viable is central to its existence. Information about, and relating to, its business model and how it goes about creating and sustaining value for its stakeholders becomes important in for its stakeholders both for accountability and decision-making purposes.

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

We agree with the concept of multiple capitals and consider that they are helpful in explaining how an organisation creates and sustains value. This is because information about those capitals better address the needs of a wider range of stakeholders.

Guiding Principles (page 13)

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 general, we agree with the Guiding Principles identified in the Discussion Paper, that they provide a sound foundation for preparing an Integrated Report and that they are collectively appropriate. However, in relation to the last principle, *conciseness, reliability and materiality*, we consider that it may be more appropriate that this refers to *relevance, materiality, consistency and reliability*. We consider that while the concept of conciseness is important, the concepts of relevance and consistency of information are more appropriate as underlying principles for the type of information that should be usefully disclosed and that will be comparable between different entities and over time for an entity.

Content Elements (page 14)

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?

Subject to the comments in our covering letter about the parameters of integrated reporting, we agree with Content Elements identified in the Discussion Paper and agree that they generally provide a sound foundation for preparing an Integrated Report.

However, we consider that it would be useful if the content elements are structured and linked more directly to the Guiding Principles and include one that relates more specifically to the underlying principle, *responsiveness to stakeholder inclusiveness*.

What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policymakers, regulators and standard-setters – page 23, Other perspectives – page 24)

Q9. From your perspective:
(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?
(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?
(c) Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?

From our perspective as an organisation responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand:

- (a) We agree with the main benefits as presented in the Discussion Paper. We consider that more streamlined and comprehensive reporting by an entity will ensure that all material and relevant information is communicated to stakeholders for their use in their respective decision-making process.
- (b) We agree with the main challenges as presented in the Discussion Paper, particularly those relating to liability and business confidentiality.
- (c) We agree that Integrated Reporting may drive the disclosure of information that is useful for integrated analysis (from the perspective of investors), particularly from the perspective of an

investor in ethical investments. However, we hope that the wider perspectives of integrated reporting will drive the disclosure of information that is useful for integrated analysis by a wider range of stakeholders.

Future Direction (page 25)

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?*

- (a) We agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC. One other outreach activity that the IIRC could conduct is that relating to determining who the wider stakeholders of an entity are and what are their information needs. This may be helpful in determining the focus of the Framework and the parameters of integrated reporting.
- (b) We consider that the outreach activities and the Pilot Programme should be given early priority as the information/results from these two activities will inform the IIRC in developing the Framework.

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

Other than the comments set out in our covering letter, we have no comments that we would like the IIRC to consider.