

Appendix A: Responses to Questions

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

The IIA is supportive of this effort. The existing reporting models, for which there is substantial variability, have outlived their usefulness due to globalization and the increasing importance of and interest in non-financial capital (as defined by the IIRC). We highlight two significant challenges in adopting an integrated reporting model. We will summarize them here and elaborate where applicable in our responses to other questions.

The first challenge concerns the practicality of the project as a whole.

- How will IIRC obtain global agreement on a framework and content for reporting requirements? At a minimum, the IIRC will need to enlist sponsorship from key regulatory agencies.
- Do stakeholders/reporting organizations really want integrated reporting? To achieve appropriate level of communication and transparency, the IIRC will need to clearly understand the needs and expectations of various constituents groups. If the impetus for this project comes from academics and regulators only, the reports are likely to be prepared with a compliance mentality. That is, preparers' goal will be to comply with the letter of the law rather than clearly communicate the position of the organization; thus, the overall objective may be diluted.
- How will the costs of implementation be evaluated relative to the benefits? A key for the IIRC to consider is how to weigh the costs and benefits as they relate to various constituents.
- How long will it be until the integrated report replaces the list of reports currently prepared? It seems likely that it will be a very long time before stakeholders like regulatory bodies are willing to give up the reports currently prepared for their purposes. If the project increases the reporting burden in the medium term, organizations are more likely to adopt a compliance mentality.

To deal with these issues, we suggest conducting research to assess the interest among reporting organizations and constituents (e.g., via a broad global survey) and the likelihood of acceptance by stakeholders who currently require reports (e.g., by meeting with regulatory bodies).

The second challenge concerns the inherent subjectivity of much of the information included in the reports. Experience has shown that organizations can manipulate even the objective, quantitative data in financial reports to misrepresent their position. We agree that "reliability is enhanced by mechanisms such as robust stakeholder engagement and independent, external assurance." However, it may be difficult for external assurance providers to know enough

about all the Content Elements to provide meaningful assurance. Such assurance will require a substantial change in the scope, accountability, knowledge, expertise and skill sets of external assurance providers.

To deal with this challenge, we suggest including in the forthcoming Framework a suggestion that internal assurance providers (e.g., the Chief Audit Executive or Chief Risk Officer) be meaningfully involved in the report's reliability (internal auditors conduct an internal audit of the integrated reporting process and consider the process of accumulating information supporting integrated reporting, particularly if integrated reporting becomes a continuous process.).

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

This action should be international in scope due to globalization and interdependency of the world economies. Having a common, global Framework promotes consistency in reporting and facilitates comparison among organizations. It will also minimize duplication of effort for organizations that report in multiple jurisdictions.

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

We agree that it is a good description to begin the dialogue. The emphasis on connectivity and the future are especially helpful, here and throughout the discussion paper. We suggest the following minor additions to clarify certain key points (additions underlined):

- Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates to achieve its mission, vision and stated objectives. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates tangible and intangible value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly:
- shows the connectivity between them;
- expands the ability to respond to needs of various audiences; and
- explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.

Integrated Reporting reflects what can be called "integrated thinking" – application of the collective mind of those charged with governance (the board of directors or equivalent), and the ability of management, to monitor, manage and communicate its definition of value and success, the full complexity of the value-creation process, and how this contributes to success over time. It will increasingly be through this process of "integrated

thinking” that organizations are able to create and sustain value. The effective communication of this process can help investors, and other stakeholders, to understand not only an organization’s past and current performance, but also its future resilience.

The main output of Integrated Reporting is an Integrated Report: a single report that the IIRC anticipates will become an organization’s primary report, replacing rather than adding to existing requirements. Such a report enables evolving reporting requirements, both market-driven and regulatory, to be organized into a coherent narrative. An Integrated Report provides a clear reference point for other communications, including any specific compliance information, such as investor presentations, detailed financial information, operational data and sustainability information. Much of this information might move to an online environment with drill-down capabilities, reducing clutter in the primary report, which will focus only on the matters that the organization considers most material to long-term success.

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

The IIA supports the development of an International Integrated Reporting Framework for the reasons presented in the discussion paper: globalization, the insufficiency of historical financial information to reflect the future potential of an organization, the need for “integrated thinking” to properly understand the organization in relation to all stakeholder groups, and the potential efficiency to be gained by a single, universally comparable report rather than various and diverse reports. It will be important to develop a framework which aligns stakeholder expectations and provides for consistency in content and format of reporting. This consistency in content and format will be useful to both preparers and users of reported information.

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?

No, there may be benefits in focusing on a broad range of smaller organizations as they may come forth with some creative solutions. We recognize, investors have a high level of interest on the large companies due to their broad scopes of operations, many global in nature, and their significant impacts on the capital and debt markets. However, larger companies are so complex; their reporting may be “watered down” in an effort to simplify. Lastly, we note that while the complexity of large and diverse organizations will make integrated reporting much more challenging to implement, they also have more mature governance structures and resources to potentially meet the integrated reporting challenges..

(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?

Yes, the concepts are equally applicable, although applying these concepts may prove quite different in practice.

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?

These are the appropriate themes. Financial statements focus on the past. "Business Model" is viewed as the process by which an organization interacts with external factors and resources and relationships to create and sustain value over time. They are a better indicator of future prospects than historical financial statements.

There is, however, a need for the Framework to clearly define what is meant by "business model"; consistent interpretation enables users to make valid comparisons. As the discussion paper correctly points out, there are many definitions of this term.

In addition to clearly defining the term, the Framework must indicate the level of detail needed in presenting the business model. This will be a difficult balancing act: the business model description must give stakeholders enough information to evaluate, while not giving competitors too much information to gain a competitive advantage. It will be helpful if the Framework gives examples from the real world, perhaps in a second volume of illustrative examples from actual reports.

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

The concept of multiple capitals is helpful because it acknowledges the many resources that organizations need to create and sustain value. It also brings to the forefront the often overlooked or ignored fact that actions diminishing an organization's natural or social capital are as important as those that diminish its financial capital.

Further, it will be important for management to indicate how they optimize the various capitals in achieving organizational objectives (efficiency).

The intangible nature of some elements of Capitals, however, leaves them open to intentional or unintentional misrepresentation. Obtaining representations from management and assurance from independent internal as well as external assurance providers is a defense against misrepresentation. The nature and benefit of internal assurance is discussed further in response to question Q7.

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?

The Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report. The most important addition is connectivity of information. They are collectively appropriate. We suggest two additional Guiding Principles and one modification to an existing Guiding Principle.

Additional Guiding Principles for consideration:

- The integrated report should replace and not add to existing reports. This is clearly stated elsewhere, but elevating it to the level of a Guiding Principle might alleviate some of the concerns and potential resistance of reporting organizations about an increase in their reporting burden.
- An additional key guiding principle should consider the costs and benefits of proposals.

Modifications to current Guiding Principles:

- To Connectivity of information, add the concept of “Stewardship” (the ethic that embodies responsible and efficient planning, directing, managing and controlling the organization, and how organization leadership blends the capitals to achieve superior value). The concept of Stewardship introduces the ethical dimension and is more holistic than the individual linkages. Effective leadership means not just seeing linkages in isolation but from the perspective of an overall vision. (The concept of Stewardship is introduced on page 9; we believe it would be helpful to include it here as well, to ensure it becomes central to the Framework.)

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?

The Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report. They are collectively appropriate. We suggest additions to existing Content Elements:

- To Operating Context, add “competitive environment (if applicable).”
- To Strategic Objectives, first bullet point, add “organization’s objectives” to “key resources and relationships” (i.e., “risk management arrangements related to the organization’s objectives, key resources and relationships”).

- To Governance and Remuneration, second bullet point, add “monitor” (i.e., “what actions those charged with governance have taken to influence and monitor the strategic direction of the organization, including its culture, ethical values and relationships with key stakeholders.”)

It is important to add “monitor” to ensure policies are being adhered to. For example, Enron’s documented governance process was an exemplary model of good governance in its stated values, ethics training programs, etc., but the actual culture was almost the complete opposite. Governance experts increasingly point to the need to periodically “take the pulse” of the organization with tools like employee surveys. A confidential survey, properly designed and administered, the results of which can provide an accurate measure of the actual and perceived culture and ethical values. Also the IIA’s soon to be released Practice Guide on Evaluating Ethics provides suggestions for monitoring.

The discussion paper should add the word (and concept of) “monitoring.” This word should be elaborated in the Framework, ideally with examples of monitoring tools in a volume of examples.

- To Governance and Remuneration, add a mention of governance models. There are many good country-specific models. While no global model exists to our knowledge, reporting governance practices using one of these models (to be specified in the organization’s Integrated Report) would enhance the context of the organization’s statements on governance. It would also enable assurance providers to provide more meaningful assurance, using the model as criteria.

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

While internal auditors are not one of the groups directly addressed by the IIRC, our role is to provide assurance over areas of importance to audit committees and management (who are responsible to other stakeholders); such areas could include reporting over the value creation process as defined by IIRC.

Q9. From your perspective:

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

We agree with the benefits, with two qualifications:

- Presumably, the Integrated Report will be periodic, and more than likely, annual. Investors need more timely information. It will be critical that the online information referenced in the Integrated Report be updated at the

frequency investors need. It may be a long time before reporting organizations can build the capabilities into their processes and information systems. Also, some changes in the detailed online information will require changes in the Connectivity of Information and Future Outlook described in the report.

- The cost/benefit issue discussed below presents a serious challenge for reporting organizations.

b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

We agree with the challenges presented and elaborate on what we see as the overriding challenge, or combination of related challenges, that could prevent effective implementation of integrated reporting.

In the short- and probably medium-term, preparing an Integrated Report will be very resource-intensive for reporting organizations. A good parallel is the much less difficult challenge of combining governance, risk, and control for reporting within the organization. Each responsible business unit wants to use its own terminology, systems and processes. Getting people to cooperate and then develop new systems and processes that meet everyone's needs and combines the information in a meaningful way is proving to be a major challenge. This challenge will be far greater for Integrated Reporting. This challenge would be simplified if the framework and definitions provided by the IIRC are both clear and generally accepted; then, organizations could adopt similarly and personnel moving from company to company would not need to "start over".

While organizations are transiting to the new report format, the current set of diverse reports will still have to be prepared. The promise of greater efficiency in the future may not be enough to convince organizations to invest considerable effort in the present.

This challenge is compounded by the short-term mentality that pervades for-profit organizations today. While shifting to a longer-term focus is a laudable goal of Integrated Reporting, this goal would only be realized after Integrated Reporting is in place. Without pressure from investors or a requirement from regulators, it would be difficult to persuade many reporting organizations to make the effort.

A final related issue is the difficulty of measuring and auditing the intangible Content Elements. If investors do not feel they can rely on significant elements of the Integrated Report, they will not pressure organizations to produce them. The value of the reports will be limited, with organizations strongly tempted to present their position and prospects more positively than they in fact are. It will be difficult and very expensive, if it is even possible, for an external assurance provider to provide meaningful assurance about these Elements. As stated earlier, better and more cost-effective assurance could come from a fully independent, competent Chief Audit Executive who reports directly to the Board or equivalent

and whose internal audit activity complies with the *International Standards for the Professional Practice of Internal Auditing*.

(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?

Potentially, yes, but with the serious qualifications and concerns expressed in Q9. (b).

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?

We agree with the actions and have the following suggestions:

- We believe the cost/benefit issue discussed in Q9 (b) will only be resolved for most reporting organizations if and when producing an Integrated Report is important enough to investors that it influences their investment decision. We suggest a broad global survey in addition to focus groups to help gauge the likelihood of this happening.
- The Pilot Program will be critical, and should be longer than the discussion paper states. If the Program has only begun in October 2011 it is hard to expect that enough lessons will be learned from it to make it possible to publish the Framework exposure draft in 2012. This timeframe would almost certainly result in a highly theoretical Framework that would severely jeopardize the effort – or it would result in delays in publication that would diminish the credibility of the IIRC. We suggest changing the anticipated publication to 2014.
- Consider the IR initiative underway in South Africa.
- Including examples in the discussion paper is an excellent idea. We suggest publishing the exposure draft of the Framework in two volumes: a Framework Volume and an Applications volume. The second volume would provide examples from existing reports, which expand upon those in the discussion paper, and also examples of processes that organizations have or might use to generate the required information.
- Implementing Integrated Reporting will be a long-term project, as the discussion paper recognizes. We suggest including a maturity model so that organizations can measure their progress. An appropriate model will have a list of attributes, and specific criteria for each maturity level for each attribute. We can provide examples of maturity models developed for specific purposes if requested.

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

We believe all the actions are essential. Rather than prioritizing by importance, we suggest prioritizing by time frame:

Time period 1 (2011-2013)

- **Outreach.** Including global surveys to gauge stakeholder interest with a broad audience, as well as focus groups for more in-depth discussion. Without strong interest and input from the stakeholder groups most critical for success (investors, reporting organizations, and regulators), the entire project could fail.
- **Pilot Program.** The pilot program is an essential step to produce a framework that is more than academic and includes a volume of practical applications. This Pilot may need to be extended more than 2 years to make the final Framework as useful as possible.
- **Measurement and Reporting Practices.** Measuring the intangibles, where possible, will be a major challenge. Developing methods to do this should be a central goal of the Pilot Program. A caveat: not everything can be validly measured, and measures that appear more meaningful than they are do more harm than good.

Time Period 2 (2012-2013)

- **Harmonization.** This will be an ongoing challenge. We believe some lessons must be learned from the Pilot Program before meaningful discussion can be held with regulators globally. This effort will likely continue in various ways after the Framework is published.

Time Period 3 (2014)

- **Framework.** Premature issuance could endanger the whole project. As much learning as practicable should go into the development of the Framework before an exposure draft is issued.

Time Period 4 (2013-2016)

- **Governance.** This should be finalized after publication of the Framework, although preliminary discussions should be part of Harmonization.

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

None at this time.