



ICGN

International Corporate Governance Network

By Email: ircomments@saica.co.za

South African Integrated Reporting Committee

25 April 2011

RE: Comments on the South African “Framework for Integrated Reporting and the Integrated Report”

Dear Sirs,

We are writing on behalf of the International Corporate Governance Network (ICGN) and its Integrated Business Reporting Committee and welcome the opportunity to respond to the “Framework for Integrated Reporting and the Integrated Report” which was published by the South African Integrated Reporting Committee on 25 January 2011.

The ICGN is a global membership organisation of over 500 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US\$12 trillion. The mission of the ICGN is to contribute meaningfully to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: www.icgn.org.

The ICGN’s Integrated Business Reporting Committee’s mission is to advance the quality of reporting by integrating environmental, social and governance factors with general financial disclosures by companies, in order to arrive at a more comprehensive picture of company strategy and performance. This will be conducive to better investment decision making and capital allocation by investors in the interest of a more sustainable economy. We set out our expectations of companies more clearly in our Committee’s terms of reference, which can be accessed at http://www.icgn.org/policy_committees/integrated-business-reporting-committee/-/page/314/. We would also like to highlight a “Statement and Guidance on Non-financial Business Reporting” that was published by the ICGN in 2008. This document is available for download at <http://www.icgn.org/best-practice/>

We believe that the South African discussion paper is aligned with the inclusive definition of corporate governance as well as the focus on ethics, stakeholder engagement and sustainability that underpin the King Code of Governance Principles for South Africa 2009 (King III) which became effective in April 2010. King III introduced the concept of integrated reporting to South African companies, and defines it as “a holistic and integrated representation of the company’s performance in terms of both its finance and its

sustainability”, something which is based on the assumption that strategy, risk, performance and sustainability are inseparable.

The South African discussion paper has also been informed by the activities of the International Integrated Reporting Committee (IIRC). The remit of the IIRC is to create a framework which integrates a company’s financial, environmental, social and governance information in a consistent and comparable format. The proposed international framework will attempt to support the information needs of long-term investors, emphasise the link between sustainability and economic value, enable environmental and social factors to be better taken into account in reporting and decision-making, and support a move away from an undue emphasis on short-term financial performance. Ultimately, it wants to close the gap between reporting and the information used by management to run a business.

We support the underlying philosophy of the South African document and congratulate the South African Integrated Reporting Committee (IRC) on its publication. We believe that – once finalised – this document will make a further contribution to South Africa’s excellent reputation as one of the leading countries in terms of inclusive corporate governance. Although the focus of the ICGN is predominantly on the role of the institutional investors, we understand and appreciate the South African context and the need for a more stakeholder inclusive approach.

The South African discussion document addresses the following issues:

- Reporting principles (scope and boundary, selection of report content, quality of reported information);
- Suggested elements to be addressed in the integrated report (scope and boundary, overview of the organisation and its activities, risks and opportunities, strategic objectives, KPIs, future performance objectives, remuneration information, analytical commentary); and
- Assurance.

Please find below a few constructive comments for your consideration:

- We are in agreement with the reporting principles, which are very similar to the current accepted principles for sustainability reporting. We believe that the business case for integrated reporting is presented particularly well;
- We support the conceptual distinction between the integrated report and integrated reporting;
- We believe that the positioning of the integrated report as the “primary report” of the organisation could be confusing. The continued use of the terms “annual financial statements” and “sustainability report” could create the impression that there will be multiple reports (as opposed to an integrated report), and could strengthen the incorrect views of some that the integrated report is merely an extract, summary or combination of existing reports;
- Therefore, we believe that the terminology should be adjusted to emphasise the “oneness” of an integrated report, informed by the activity of integrated reporting;
- This integration should also be reflected in the structure of the report. At the moment, the proposed structure is biased in favour of the traditional structure of a GRI report, with the addition of abridged financial statements (as suggested on page

15 of the discussion paper) and a more detailed section on remuneration. It is not entirely clear whether there will be a substantial difference between such a report and a GRI report which is strong on economic indicators (e.g. EC1); and

- We agree with the continued importance of assurance over all the information contained in the integrated report, although the focus on forward-looking information will require new approaches from the audit profession.

In summary, integrated reporting provides a huge opportunity to fundamentally change all current reporting practices, including financial reporting. The participation of all the major accounting standards authorities in this process adds credibility and inclusiveness which should result in a more fundamental shift towards integration. A long-term goal of an integrated standard by 2020 has been suggested, and we are in support of such a timeframe. However, to achieve this we believe that the developing frameworks should be more ambitious in terms of true integration.

We hope our comments are helpful to the Committee and wish to remain actively involved in the dialogue. If you would like to discuss any of these points, please do not hesitate to contact Carl Rosén, our Executive Director, at +44 (0)207 612 7098 or Carl.rosen@icgn.org, or Claudia Kruse, Chair of the Integrated Business Reporting Committee, at +31 20 60 48144 or Claudia.kruse@apg-am.nl.

Yours sincerely,



Claudia Kruse

Chair, ICGN Integrated Business Reporting Committee