

SOUTH AFRICA'S FRAMEWORK FOR INTEGRATED REPORTING AND THE INTEGRATED REPORT - DISCUSSION PAPER

COMMENTS BY CICA'S CANADIAN PERFORMANCE REPORTING BOARD

INTRODUCTION

We recognize that the Discussion Paper (DP) has been developed to fill a particular need in South Africa, where a combination of the JSE Listing Requirements and King III impose on listed public companies an obligation to produce and issue an integrated report (or explain why they have not done so). The purpose of these comments is not only to offer input to South Africa's Integrated Reporting Committee, but also, in so doing, to raise awareness of reporting issues that the International Integrated Reporting Committee may wish to consider.

OVERALL CONCERN

We agree various stakeholders want environmental, social and governance (ESG) information as well as financial information about an entity and that some of this ESG information should be better incorporated into business reporting than is currently the case. As well, we support initiatives that result in more useful, transparent business reporting, and that lead to more concise reporting. We do not believe, however, that one "integrated report" should attempt to satisfy the information needs of all stakeholders. In our view, the needs of the various stakeholder groups are quite disparate. Communicating all necessary information in one report will result in significant amounts of information that will be irrelevant for one group or another. We believe that the integrated report outlined in the DP will add another layer of complexity and costs to business reporting without improving either its usefulness or transparency and will not result in a concise report. In addition, we believe that some of the DP's disclosure proposals could pose significant issues for reporting companies around confidential and competitive matters.

An alternative concept for integrated reporting could be to consider the integration of a company's information systems to ensure consistent reporting of like information across various stakeholder groups in different reports. Under that model, the International Accounting Standards Board's practice statement *Management Commentary* already provides a well-considered broad framework for providing investors with decision-useful information. This framework, which in many respects is very similar to the CICA's *Management's Discussion and Analysis – Guidance on Preparation and Disclosure* could be supplemented as necessary to provide a foundation for reports to meet the needs of different stakeholders.

We believe the focus for reporting should be on the needs of investors and other capital market participants. The needs of other stakeholders should be satisfied

though supplementary reports that are developed from integrated systems that provide consistent data for all reporting purposes.

OTHER COMMENTS

Our below-noted comments further illustrate some of the problems of trying to satisfy all stakeholder needs in one report and should be considered in light of this overall concern.

Relationships with other reports and disclosures – We believe there needs to be more clarity about the links between the integrated report and other reports such as the financial statements and, for example, Management Commentary (even though we understand there is currently no requirement for such a report in South Africa). The introduction to the DP implies that the integrated report will be sufficient for readers to make fundamental assessments. Later the DP notes that various parties would require additional information.

Concepts of “value “and “sustainable” – These concepts have different meanings for different stakeholders. This leads us again to the conclusion that one integrated report is not practicable and that the primary report should focus on the needs of investors. In addition, it would be useful to discuss how the timeframes “short, medium, and longer term” should be applied.

Capacity to create value – The paper notes that entities’ success depends on their ability to create value without depleting capital assets of several types. It would be useful if the paper were to provide more guidance about expected disclosures with respect to different types of capital assets. We note that the concepts of productive capacity and capital maintenance have been well known for many years, but that such factors are not consistently well reported to external users.

Report scope and boundary – If an integrated report adopts a boundary that is different from the financial statements, discussion of issues outside the financial statement boundary needs to be clearly distinguished to avoid a mismatching of information.

Relevance and materiality – An integrated report targeted at all key stakeholder categories, who are likely to have different concepts of relevance and materiality, is unlikely to be concise. Again this leads us to the conclusion that the report should be targeted at investors.

Comparability and consistency – More guidance needs to be provided about this issue that continues to be a challenge even within traditional financial reporting, all the more so for environmental and social performance measures.

Timeliness – The DP should recognize that timeliness of integrated reports is likely to be an issue until entities have improved systems to collect and report the data.

Summary financial information – We note that the DP proposes that an integrated report should contain abridged financial statements. While these may be sufficient for some stakeholder groups, they will not be sufficient for investors.

E & S performance disclosures – It would be helpful to provide more direction about particular categories of environmental and social performance information that should be expected to be included in an integrated report.

Remuneration – We believe these disclosures should focus only on information that helps readers assess the extent to which the interests of senior management and the board are aligned with long term strategy and sustainability.

Future-performance objectives – While we agree these disclosures are important, we believe the DP should emphasize that disclosures about future objectives need to be distinguished from disclosures about expected actual future performance. There also needs to be greater recognition that forward-looking information is significantly less certain than historical information, a fact that should be communicated to report users.

Assurance – Effective board and audit committee oversight of integrated reporting will depend on directors possessing the necessary knowledge and experience. As well, we do not believe that any board (or CEO, other officer, or assurance provider) would, in a timely and cost-effective manner, be able to reach the conclusion and express the opinion proposed in the example in Annex 3 of the DP.