

COMMENT ON THE DISCUSSION PAPER TITLED “FRAMEWORK FOR INTEGRATED REPORTING AND THE INTEGRATED REPORT”

SUBMITTED BY NICK ROCKEY ON BEHALF OF TRIALOGUE (PTY) LTD

Comment 1 – The Framework for Integrated Reporting should make firm recommendations on the applicability and treatment of existing reporting practices

The intention of King III is to position the integrated report as the primary report to stakeholders. Currently, the primary report produced by a company is the Annual Report, which includes messages from the Chairman and CEO, possibly an FD report, operational review(s), governance report, and financial statements. Thus far, efforts to migrate to integrated reporting typically involved injecting sustainability-related content into the Annual Report, either by including an abridged sustainability report, or (more progressively) integrating aspects of sustainability into various sections of the Annual Report.

Triologue raises the concern that introducing the concept of integrated reporting into the current mindset of company leadership may very well lead to such a report being added into the package of annual reporting, just as the governance report and the sustainability report were added in earlier times.

While we accept the intention of the King III movement to bring about integrated stewardship at the highest level, this revolution may not be brought about effectively unless more practical guidance is given as to how to convert the current framework of reporting into a framework that forces integrated stewardship and reporting.

Supporting this concern, our primary recommendations are:

1. The integrated report should replace the annual report and not be regarded as a subset of, or additional to, the annual report.
2. Currently, the Chairman and CEO’s messages in the annual report cover content that is recommended as part of the integrated report. The integrated report could exclude messages from the Chairman or CEO, although this is likely to meet with resistance. A second option is to ensure the Chairman and CEO sign off on the integrated report. A third option would be to associate parts of the integrated report with the messages of the Chairman and CEO. For example, the Chairman’s message could discuss the operating context/environment (commodity prices, exchange rates, export markets, labour regulations, King III, transformation, logistic networks) and how it impacts on the company. The CEO’s report could discuss the company’s strategy and performance taking into account the risks and issues facing the company, and the opportunities it intends to pursue. We recommend that the Framework for Integrated Reporting provides guidance as to how the Chairman and CEOs messages should be dealt with.
3. The detailed reports (comprising of financial statements (and notes to these statements), a report on key risks, governance and or sustainability) could be combined in one or more printed

reports and / or be web-based. Positioning the Integrated report as a report that draws from all of these other detailed reports (and not just as a report that includes some sustainability related commentary), would ensure it gains the intended status as the primary report on the company. We recommend that the Framework for Integrated Reporting is explicit on the fact that these detailed reports should stand apart from the integrated report.

Comment 2 – Detail of issues to be included

There should be a clear distinction between the suggested elements to be addressed at a high versus a detailed level. As we have experienced with the GRI, companies are quick to resort to writing reports that simply cover as many as possible of the GRI indicators, and reporting deteriorates to a tick-box process. The GRI includes the relevant high-level principles of reporting, but these are frequently overlooked or not adequately understood. This is one of the reasons that sustainability reporting is often considered a grudge activity for the reporting company and is undervalued by readers. The risk of providing detailed examples of what to include in the report is that this will become the default set of issues covered (as with the GRI), without thought given to reasons for including the issues or not including others that are more relevant to a particular business. It would be preferable if companies were encouraged to work through their detailed financial statements, governance / risk reports and sustainability reports and draw out the material issues for inclusion in the integrated report.

A proposed option for consideration is to simply leave out examples of detailed issues and rather provide more comprehensive guidance at a high level for each element. Companies will then be forced into structuring their report from first principles rather than resort to an itemised response. By way of clarification, Section 3.1 refers to a Report profile. The discussion document should provide a detailed explanation for including a profile of the report, but stop short of listing examples of items to be included as per the seven bullet points that follow.

To this point, the Section 3.7 of the discussion document lists remuneration policies as a topic to be included in the integrated report. The importance of this issue is not disputed. However, it seems out of place that this one issue is covered separately as a suggested element for inclusion, whereas there are many other critical ESG issues that are not. It is proposed that the issue of remuneration policy is not specifically covered.

The advantage of leaving out examples is that this leaves the door open to development of leading practice, over time, by the many interested and affected parties in the reporting arena. For instance, organisations that hold reporting awards, other service providers, analysts and companies themselves will be able to provide examples of good reporting practice. It will not be long before leading reporters start setting the benchmark in integrated reporting.

Comment 3 – Assurance

All statistics in the form of KPIs or KRAs that appear in the integrated report should be drawn from and hence appear in the underlying detailed reports (e.g. Financial Statements / Sustainability Report). It is therefore appropriate that assurance of financial statements or indicator based assurance of sustainability information should be applied at the level of these detailed reports.

At the level of the integrated report, the external assurance should only determine that information on company performance and interpretation of this information is consistent with the audited figures contained in the underlying reports. In the case of sustainability related content, which may

not necessarily have been assured, the integrated report should make note of which data has been subjected to assurance or not.

It is entirely appropriate that the board ensures the integrity of the report and that the integrated report include a statement to this effect (as per Annex 3). The board is best placed to comment on strategy and future business prospects. Commentary to this effect is by nature non-specific and based on broad socio-economic trends. We therefore question the value that will be derived from having external assurance providers comment on 'processes and assumptions' that underpin these forward looking statements.

Comment 4 – Annex 2

Annex 2 relates as much to the function of managing sustainability within an organisation as it does to the compilation of an integrated report. The management of a business in a sustainable manner is a complex undertaking that involves many processes. Engaging key stakeholders, setting up systems that track KPIs or KRAs are all part of the management process, as is developing a business strategy and identifying key risks and opportunities. The discussion guide should avoid overstepping its purpose by subjecting readers to good sustainability or business management principles and processes.

The suggested items for inclusion in Section 3 of the report (e.g. Identifying material issues, impacts and relationships) provide adequate guidance on report content. Companies that do not undertake these activities will not be able to report on them.

If commentary relating to management of sustainability is removed, Annex 2 is left with points such as:

- Compile and structure the integrated report,
- Ensure the organisations governing structure approves the report
- Publically issue the integrated report

It is proposed that these points are either obvious and don't need to be explicitly described, or could be combined with Section 2 on Reporting Principles. The inclusion of Annex 2 is therefore seen to be unnecessary.