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Professor Mervyn King, Chairman

Integrated Reporting Committee of South Africa

To: ircomments@saica.co.za

Re: **Framework for Integrated Reporting and the Integrated Report Discussion Paper**

The American Institute of Certified Public Accountants (AICPA) is pleased to offer the following comments in response to the referenced discussion paper.

The AICPA strongly supports the development of high-quality, comprehensive global accounting and reporting standards and frameworks. The AICPA has long advocated for the development of enhanced business reporting standards through the work of many groups including the Enhanced Business Reporting Consortium (EBRC), which the AICPA launched in 2003 and continues to support.

We are also founding members of the Accounting Bodies Network of the Prince's Accounting for Sustainability Project and support the work of the International Integrated Reporting Committee (IIRC) in its efforts to develop a global framework for integrated reporting.

It is imperative that we move rapidly towards an improved global business reporting system. Numerous significant corporate governance failures in recent years and the widespread impact of the global financial crisis have created a pervasive diminution of trust in the business community.

Further compounding this lack of trust, the business reporting system has evolved to the point where the proliferation and complexity of disclosures required of companies has resulted in information overload and a lack of clarity about company performance. Business reporting has become an exercise to ensure compliance with multiple sets of rules. What is needed is reporting that communicates the essential elements of company strategy, performance and value creation potential in a way that is clear, concise and understandable.

Looking to the future, our global economy is characterized by complex inter-dependencies. Global population growth, combined with the impact of industrial activity, is expected to put enormous strain on resources and the capacity of our environment and our social systems. The potential ramifications will be significant

for both developing and developed regions of the world. In this context, companies will increasingly be expected by an expanding array of stakeholders to take an active role in addressing the world's environmental and social challenges.

These 21st century global challenges require 21st century global solutions, including economic and financial policies and mechanisms that fully take into account the utilization of resources and the impact of current decisions on the economic prosperity and well-being of future generations. An improved business reporting system that will ensure the efficient utilization of natural capital and the effective allocation of financial capital in a global economy is a critical element in the equation.

An integrated reporting model that enhances a company's ability to communicate their story and provide investors and other stakeholders a concise view of performance in the context of economic, social, environmental and financial issues will represent valuable improvement to business reporting practice. Presenting a more complete and transparent picture of performance, utilization of resources, and ability to create value over the long-term, will contribute significantly to restoring public trust in business, and enhancing the confidence of investors and other stakeholders.

We acknowledge the work of the Integrated Reporting Committee (IRC) of South Africa and its efforts to advance thinking and practice in this critical journey towards improved business reporting and hope you find our comments that follow to be helpful to that end.

Sincerely,



Arleen R. Thomas, CPA

SVP, Member Competency and Development

About AICPA

The American Institute of Certified Public Accountants (www.aicpa.org), founded in 1887, is the world's largest association representing the accounting profession, with nearly 370,000 members in 128 countries. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting; membership is also available to accounting students and CPA candidates. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination.

Introduction

The introductory comments effectively summarize the business case for integrated reporting, including the failure of the current financial reporting system to provide sufficient information to make a meaningful assessment of an organization’s ability to create value of the short-, medium-, and long-term.

We concur with the principles-based approach to integrated reporting. We also support the caveat that the Discussion Paper is not intended to be a checklist or prescriptive, and that organizations should avoid a box-checking exercise against underlying sustainability reporting and performance frameworks that they might choose to make use of.

Management Information

One of the common denominators of the numerous financial reporting studies conducted over the past several years is the need for clear and understandable financial and non-financial information about how management runs the business. Generally, the information that is important to users of financial statements and business reports is the same information that management uses in managing the business.

The introductory section outlines many characteristics of an effective integrated report. The suggested elements to be included in the integrated report include opportunities for management’s perspective. However, it may be helpful to underscore the importance of management’s view and the value of the integrated report in making the connection between the information that management uses internally for decision-making and the information that is disclosed externally to investors and other stakeholders.

1. Reporting Principles

Comments regarding the relevance and materiality discussion under “Principles informing the selection of report content” section follow.

Selection of Report Content – Relevance and Materiality

As noted in the Discussion Paper, materiality is a more difficult measure to define for sustainability information than for financial information, requiring a great deal of judgment.

The preface to the introduction of the Discussion Paper defines the overarching objective of an integrated report as being “to enable stakeholders to assess the ability of an organization to create and sustain value over the short-, medium-, and long-term”. Similarly in Section 3 of the Discussion Paper, under the rubric of “Understanding the operating context,” guidance is provided for a statement of the organization’s significant impacts... “identifying those that have material implications for its ability to create and sustain value.”

However, Section 2.2 of the report containing the materiality discussion does not seem to have this same focus on the assessment of the organization’s ability to create and sustain value. Rather, the language used in this section seems to address the broader scope of potential assessments and decisions that stakeholders may make that an organization needs to consider in its stakeholder engagement process. For example (emphasis added):

- “Information that is capable of making a difference in the assessments and decisions of stakeholders is relevant even if some users choose not to take advantage of it or are already aware of it from other sources.”
- “An item is material if it is of such importance and has an impact that could substantively influence the assessments and decisions of the organisation or its stakeholders.”
- “Relevant issues are those that may reasonably be considered important for reflecting the organisation’s financial, environmental, economic and social impacts, or influencing the decisions of stakeholders.”

We agree that it is essential that organizations are responsive to the legitimate interests and expectations of key stakeholders. However, the language used in this section of the framework, as referenced above, can easily be construed to encompass a broad range of assessments and decisions.

It may be helpful to provide additional language that would help companies to better identify those issues and impacts that are material in the context of the primary objective of the integrated report - to enable the assessment of an organization’s ability to create and sustain value.

2. Suggested Elements to be Addressed in the Integrated Report

Strategic Objectives – KPIs and KRIs

At a high-level Section 3 provides an appropriate structure for the categories of information to be included in the integrated report. Sections 3.4 and 3.5 addressing strategic objectives and performance suggest a “succinct list of KPIs and KRIs,” along with a description that references any frameworks used.

Different terms are often used around the world to describe concepts within corporate performance such as opportunities, risks, strategies, plans, intellectual assets/capital, intangibles or value drivers.

The AICPA founded the Enhanced Business Reporting Consortium (EBRC), and is actively involved in the World Intellectual Capital Initiative (WICI). These organizations have done extensive work in developing a voluntary, open-standard

global framework for measuring and reporting corporate performance to shareholders and other stakeholders.

The EBR/WICI Framework follows a similar structure to the elements included in the Discussion Paper, but also identifies and defines high level elements and related definitions within five broad categories of 1) Business Landscape, 2) Strategy, 3) Resources and Process, 4) Key Processes, and 5) Performance.

WICI and its partner organizations have also made significant progress in developing guidelines for measuring and reporting on key performance indicators. The WICI work includes the publication of a comprehensive information framework including industry-specific KPIs, and a related XBRL taxonomy.

We would recommend consideration of the use of a business reporting data standards (i.e. XBRL) for the information covered by the Framework. The ability to automatically access and reuse disclosures in a common electronic format provides benefits to both users of business information benefit and those that provide business information.

Data reporting standards such as XBRL provide companies with an effective vehicle to communicate important information about strategy and performance to investors and other stakeholders in an easily accessible format. XBRL also provides regulators with the ability to more effectively perform their responsibilities of collecting, analyzing and publicly providing important information. In addition, in countries where standardized business reporting is being implemented, companies are benefiting from reduced compliance reporting burdens.

It may be helpful to reference the work of these organizations which can be accessed via the links below:

[Enhanced Business Reporting \(EBR\) Framework](#)

[EBRC XBRL Taxonomy](#)

[WICI-Global Website](#)

[WICI Framework](#)

All of this information may be freely leveraged in efforts to develop a best practices framework of elements and definitions to complement traditional financial reporting. We believe this is the most critical step toward enabling companies to implement integrated reporting in a meaningful and transparent way, and much work is still to be done to accomplish it.

We applaud the efforts of the IRC to work toward the development of a globally recognized, open standard, best practices framework, and we remain committed to supporting this effort through AICPA participation in the EBRC, WICI and the IIRC.

Operating Context - Identifying material issues, impacts and relationships

This section would benefit from additional clarification and structure. It may be helpful to discuss the process steps of the organization's impact analysis and stakeholder assessment separately from the report content requirements.

Future performance objectives

Providing disclosures about future performance is an area where stakeholder interests need to be balanced with legitimate concerns of management, especially with respect to disclosures and representations that may result in increased risk of legal liability.

The future performance objectives section of the Discussion Paper is prescriptive in terms of requiring specific performance targets, and also includes a broad mandate that it be responsive to the expectations of key stakeholders. These requirements may encounter resistance from preparers who are concerned about making disclosures that might impact their competitive position or expose them to future legal actions.

Full and transparent disclosure of the type of information contemplated by the overarching concept of integrated reporting and by this proposed Framework will enable investors and other stakeholders to formulate their own assessment of the company's future value creation potential. An alternative approach to a prescriptive requirement for companies to provide detailed forward-looking disclosures and estimates would be to include instead the necessary content elements (i.e. leading indicators) in the Framework that would serve as the raw material necessary to enable stakeholders to perform their own analysis to determine future performance estimates.

Remuneration policies

The opening paragraph of this section notes that the application of King III and compliance with other regulatory requirements will require disclosure of detailed information. Compensation practices vary widely around the world, as do the jurisdictional requirements for reporting on executive compensation.

Any relevant and material information about remuneration would seem to be appropriately included in the section addressing the organizational overview, business model and governance structure, and not require a separate content section.

3. Assurance

We concur with the recommendations for board responsibility and audit committee delegation, and for independent external auditor assurance.