

21 April 2011

Integrated Reporting Committee
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Dear Sir/Madam

COMMENTS ON DISCUSSION PAPER: FRAMEWORK FOR INTEGRATED REPORTING AND THE INTEGRATED REPORT ("DP")

Background

The JSE Limited ("JSE") is licensed as an exchange in South Africa under the Securities Services Act 36 of, 2004. The Issuer Services Division of the JSE is responsible for regulation of companies that issue equity instruments listed on the exchange ("Issuers"). The regulation is undertaken through the creation of the JSE Listings Requirements ("LR") and the enforcement thereof. This comment letter is provided by the Issuer Services Division in its capacity as the regulator of Issuers.

The Issuer Services Division is fully committed to the Third Report on Corporate Governance in South Africa ("King III") comprising of the King Code of Governance Principles ("King Code") and the King Report on Governance ("King Report") in which recommendations of best practice for each principle are provided. Accordingly, paragraph 8.63 of the LR requires Issuers to include a narrative statement in their annual report as to how they have applied each of the principles of the King Code, or to provide reasons for non compliance with a specific principle.

The following principles as contained in the King Code are of relevance with regards to integrated reporting:

- Principle 2.12 and 9.1
"The board should ensure the integrity of the company's integrated report"
- Principle 3.4
"The audit committee should oversee integrated reporting"



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- Principle 9.2

“Sustainability reporting and disclosure should be integrated with the company’s financial reporting.”

From these principles it is clear that King III expects companies to publish integrated reports. From a LR perspective we would expect all Issuers to either produce an integrated report or to explain why it has not done so. As with other areas of King III, it is conceivable that an Issuer may decide that it is inappropriate to produce an integrated report at this stage, and an explanation with reasons for this decision will ensure compliance with the LR.

The DP

We applaud the efforts of the Intergrated Reporting Committee (“IRC”) to provide some guidance in this area of integrated reporting. We concur with the commentary in the introduction of the DP that, currently the reports and disclosure on financial performance, sustainability and governance often fail to make the connection between the organisations strategy and the financial, social and environmental performance and governance issues. As such the reports are backward looking without providing information regarding the ability of the organisation to create and sustain value over the medium to longer term.

We also believe that there are some very useful threads within the DP specifically:

- the idea that integrated reporting provides a strategic overview;
- some of the ideas for the elements of the Integrated Report which provide structure to the report;
- the descriptions in italics underneath each of the headings for the elements; and
- the focus on key performance indicators and key risk indicators.

We must however express some concerns with regards to the direction that the DP takes, as detailed below.

Conflict between the DP and King III

Firstly, we believe that there are some inherent conflicts between the DP and King III. King III states that an integrated report must be prepared (principle 3.4 point 24). However, the point of departure between the DP and King III is that the King Report states clearly that the annual financial statements should be included in the integrated report (principle 9.2 point 8), whereas the DP takes a completely opposite position in calling for extracts of financial information.

The King Report also states that a company should prepare a summarised integrated report in addition to the complete integrated report (Principle 3.4 point 41). This summary should give a concise but balanced view and should provide key financial information in line with IAS 34 (point 42 of principle 3.4). The DP calls for a summary Integrated Report only. Furthermore, the DP is not prescriptive, as the King Report is, as to the format of the financial information which means that the financial information included will be unregulated.

It seems that the DP has disregarded the points set out above. Furthermore, with its proposed focus on materiality, the DP contradicts various aspects of recommended practice in King III, which calls for specific disclosure within the Integrated Report, irrespective of materiality. These areas are as follows:

- Recommended Practice (“RP”) 3.6.2 – results of the review of the finance function should be disclosed in the integrated report;

- RP 6.4.5 - requires disclosure of material or often repeated instances of non-compliance with the company's compliance framework;
- RP 8.2.6 - requires the nature of companies dealing with stakeholders and the outcome thereof;
- RP 8.5.4 – requires the number and reasons for refusals of requests of information that were lodged with the company in terms of the Promotion of Access to Information Act, 2000; and
- RP 9.2.3 – makes a key recommendation that the integrated report should describe how the company has made its profit. The DP seems to lose this thread.

The separate primary report approach

The DP calls for the Integrated Report to be a *separate primary* report for an Issuer. We disagree with this approach. In addition to conflicting with King III, as highlighted above, our concerns with this approach are set out below.

Proper price formation of securities traded on an exchange occurs primarily based on the financial results of the Issuer and there can be no doubt or argument that analysts require the IFRS numbers. We therefore disagree with the DP suggestion of a reduced and unregulated approach to financial reporting in the integrated report. Our concern is compounded due to the proposal that this report is to be the primary focus for the user. We do not believe that relegating the annual financial statements to a separate annexure (accessible for example at the users request) is the correct approach.

The concept of what should be included in an integrated report generally and specifically for each organisation will evolve over time. We therefore do not believe that it is appropriate to issue and enforce detailed regulation on integrated reports at this time. As with other aspects of King III the best Integrated Reporting practice will be aspirational. Again therefore we have serious concerns with the suggestion that the primary report of an Issuer will be an entirely unregulated report.

If the integrated report is the primary reporting mechanism, we do not believe that a reduction of information can be justified. As set out above, our concern is mostly around the reduction of financial information, but also extends to non-financial information. For example, on what basis would a company assess which King III principles to include or exclude? From a financial information perspective we would advocate that the integrated report must include full financial information as required by IFRS.

Assessing materiality will be very difficult and certain issues may be immaterial to investors, but would be important for other user groups. The decision regarding what to cut out of the integrated report will therefore be very difficult and could potentially result in a misled market.

Despite the proposal in the DP that it should provide a balanced view, we are concerned that the Integrated Report envisaged in the DP, with its emphasis as a separate primary report, will become nothing more than a marketing tool.

It is important not to create another layer of reporting and therefore increasing the burden on Issuers. This relates to all companies, but specifically smaller companies who lack the capacity to do more than just one single report. The suggestion that the Integrated Report should be a new, separate report is therefore of concern to us.



At this stage many smaller organisations do not even issue a sustainability report. The integrated report concept should be used to encourage them to expand their reporting. Using the annual report as the starting point, commentary and discussion needs to be added in terms of reporting on their integrated reporting process. This process, applied correctly, will then naturally lead them down the road of having to collect more information on environmental and social (“E&S”) issues. By advocating a separate report the opportunity is lost for organisations to approach reporting in a holistic manner. To create a separate report would encourage Issuers to continue reporting in silos where there is financial reporting in one block, E&S in another, and governance and compliance in another block. We are not advocating that Issuers merely lump financial and E&S information together. Rather, we believe that by using the annual report as the anchor Issuers will better be able to understand that they need to connect sustainability issues to financial performance over the longer term.

As a separate report the Integrated Report would just become an executive summary of information that by definition must therefore be included in the underlying documentation. Such approach does not drive the Issuer to apply their minds freshly to the questions. Furthermore, our concerns with a summary have been expressed throughout this letter. The approach should rather be that the Integrated Report is used by management to provide focused relevant stories which help guide the reader through the more detailed information. Those focus stories should tell the reader how management has applied its mind to the questions of sustainability within the context of their organisation.

The Issuer Services Division has no objection to the Integrated Report being the primary report provided there is only one detailed report, which contains inter alia the full annual financial statements.

The integrated reporting process

We are concerned that the DP focuses on the Integrated Report itself, as opposed to the process behind the report. The Integrated Report should reflect how the organisation has approached the concept of integrating sustainability issues into the fabric of its corporate existence. By definition it is a process of where the organisation is going. It would therefore be a mistake to think that an organisation, at the end of its financial year, can just pull together some information to include in an integrated report. The process needs to be planned at least a year in advance. The process will be evolving and ongoing every year, as the Issuer achieves targets and pushes for new boundaries in the following year.

The focus shouldn't be “what do we include in our integrated report”, but rather “what is our process and strategy, what are we doing, and then to report on that”.

Financial sustainability

The DP does not drive an organisation to put financial measures on the E&S issues. For example the reduction of carbon emissions might be of general interest, but what would be even more useful would be to understand the financial impact (or potential impact) of such reduction. How does this translate into the income statement, how, if at all, does it tie into the organisations marketing strategies?

In addition to our concerns on reduced financial information disclosure, we believe that the DP does not place enough emphasis and provide enough guidance in the area of financial sustainability. The ultimate question is whether this organisation can continue to be financially sound in the future. The integrated report should

cover areas such as the future business plans of the entity, is it financially sound and can it continue as a going concern. Examples in this area include:

- What is the interaction and proposed resolution of potentially conflicting strategies. For example the strategy of a high dividend payout policy that may inhibit longer term growth.
- If the entity sells products under licence, when do those licences expire and what steps are being taken to product or replace income streams.

The reason for quantifying the financial impact of E&S issues and the financial substantiality of the Issuers strategy goes to the heart of how the organisation makes its profit.

Detail contained in the DP

Within the principles contained in section 2 we have the following comments:

- Point 2.2 on materiality
The section on materiality needs to be expanded to provide more detailed guidelines (perhaps even illustrations). Our concern with making the Integrated Report an executive summary is expressed elsewhere. The section on materiality shouldn't merely suggest which areas are material to summarise. Instead the focus should be on understanding the materiality of matters from the perspective of the significance or impact on the future of the organisation.
- Point 2.2 on neutrality
In order to avoid the Integrated Report from having too much of a positive marketing bias there should be an explicit, mandatory requirement to have a section dealing with existing and potential risk factors applicable to the organisation and the industry in which it operates.

Within the detailed elements contained in section 3, we had concerns in the following specific areas:

- Point 3.5 -Account of the company's performance. Our concern relates to inclusion of selective financial information as discussed above.
- Point 3.7 -Remuneration is adequately dealt with in King III and the LR. The detailed remuneration section and its emphasis within the integrated reporting framework are misplaced.
- Point 3.8 -The analytical commentary section is brief and unhelpful.

Assurance

We believe that it is premature to dictate the direction that assurance will take in the area of integrated reporting. The decision should be left to the audit committee to decide which aspects need assurance and the format of such assurance. In line with the wording of King III we believe that the area of assurance should be addressed through the "apply or explain" approach.

What should an integrated report look like?

Whilst a tick box mentality must be avoided (see our comments above regarding the inappropriateness of regulating this area), we believe that the DP in its current format gives insufficient guidance to companies attempting to address their integrated reporting process. This comment relates specifically to those smaller companies moving into this area from scratch. These companies are in desperate need of detailed examples and guidance. As opposed to attempting to define what a reporting framework should look like, it might be more useful to identify good and bad integrated reporting practices, to track and analyse these activities.

Linking into our comment above, it should be about the integrated reporting process itself, not only the final report.

We believe that the inclusion of full financial information in the integrated report is a critical starting point. The emphasis for a framework on integrated reporting should be to ensure that:

- Organisations incorporate sustainability issues into their management and strategic processes.
- The integrated report itself is forward looking and deals with the impact of the organisation as a whole (not just the E&S issues).
- Management guides the reader through the detailed reporting by highlighting key stories which link directly into the more detailed information.
- Consideration is given on how to attach numbers to the E&S aspects.
- Electronic media is used effectively for reporting to stakeholders. We accept that combining all information into one report could result in a daunting read, but believe that electronic media used effectively can help make the Integrated Report easier for the users.

The E&S issues will be more critical for certain industries. For example, in the extractive industries environmental issues and worker safety are vital. For other industries the focus would be less on E&S issues, and more on what their sustainable business model is. For these industries there will be more important factors that could negatively impact sustainability of the business.

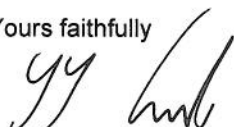
In this regard, it would be most useful if industry sections could be created within an integrated reporting framework. Investors and Issuers can pool their thoughts on matters that are material to the sustainability of that industry. These key issues can be collated in a central database and then be used as guidance for an entity preparing their Integrated Report for the first time. These industry sections should be created in such a manner that it is easy to change them over time, with Issuers and investors adding their thoughts as the integrated reporting process evolves.

Conclusion

It has been acknowledged in many circles that integrated reporting is a process, an evolutionary one at that. It is not just a matter of pulling together financial and non financial information. Instead it is about integrated thinking. The natural outcome is therefore that there will be no right answer for the Integrated Report for an entity. It is a process that will be improved and refined over time.

Our comments as set out in this letter suggest a different approach to integrated reporting compared to the stance detailed in the DP. In this regard we would welcome any further discussions and meetings with you on this matter.

Yours faithfully



TANIA WIMBERLEY

HEAD: FINANCIAL REPORTING

ISSUER SERVICES