



CHARTERED SECRETARIES
AUSTRALIA

Leaders in governance

31 January 2013

International Integrated Reporting Committee (IIRC)
prototype@theiirc.org

Dear Committee members

***Prototype of
The International <IR> Framework***

Chartered Secretaries Australia (CSA) welcomes the opportunity to comment on the *Prototype of The International <IR> Framework* (Prototype Framework). CSA understands that the Prototype Framework is not part of the formal consultation process, but that the IIRC would welcome feedback from stakeholders on the content of the Prototype Framework.

CSA is the peak professional body delivering accredited education and the most practical and authoritative training and information in governance and risk management in Australia. Our Members are all involved in governance and corporate reporting, with primary responsibility to develop and implement governance frameworks in public listed and public unlisted companies, as well as in private companies, not-for-profit organisations and in the public sector.

We strongly support the aims of integrated reporting and are ourselves firm advocates of coherent, concise reporting that demonstrates the stewardship capacities of an organisation and how it creates and sustains value. Our comments on the Prototype Framework are offered within this context.

The role of the company secretary in integrated reporting

The company secretary usually has responsibility within organisations for the narrative reporting aspect of the annual report. While the CFO has responsibility for financial reporting, the narrative in the directors' report, the operating and financial review and the chair's report providing the context and background to the financial statements, is most often drafted by the company secretary, acting on behalf of the board. The company secretary is also most often the person charged with drafting the corporate governance statement in the annual report on behalf of the board — this statement is mandatory for public listed companies in Australia.

In this role, the company secretary acts as the nexus between the board and shareholders, ensuring that the narrative elements of the annual report provide investors with a view of the organisation's financial position, its drivers of performance, its prospects and commentary on what may happen financially to affect those prospects.

The company secretary will therefore be integral to the success of integrated reporting. We note that they will need the commitment of the chairman and the CEO to drive a process of change in corporate reporting within the organisation.

The balance between aspiration and current realities

The Prototype Framework is clearly and plainly written but it is aspirational in that it sets out a scheme for a 'process that results in communication, most visibly a periodic "integrated report" about value creation over time' (p 3).

That is, the framework helps organisations to undertake integrated thinking, which allows them to undertake a change management program so that they can:

- break down the propensity to thinking and operating in 'silos' that occurs in many organisations
- approach the business in a desegregated manner in order to understand how the interrelationship of all its functions and actions can inform decisions concerning prospects, risks and opportunities
- make better business decisions as a result of an enhanced understanding of the business.

The integrated report is the outcome of this process.

While CSA Members believe that undertaking such a change management process will lead to a better understanding of a business, and better decision-making for a business, we note that the reality is that:

- many organisations currently operate in silos
- there will be few individuals within an organisation with the depth of knowledge to synthesise information from various silos, with the CEO, and possibly the CFO, being the only individuals to potentially have a holistic understanding of the value drivers of the business — within corporate groups the CEOs of individual businesses will know the value drivers of their business, but not those of the group
- not all organisations will have the resources to form an Integrated Reporting Steering Committee to bring together different parts of the business to synthesise information.

CSA is concerned, therefore, that it can be difficult for organisations, and the individuals within those organisations who would like to champion integrated reporting, to know how to progress to an integrated report. Reading the Prototype Framework can be daunting for individuals faced with the reality of an organisation's current approach, yet the Prototype Framework itself does not supply any guidance on how an organisation might embark on such a change management process. It can be even more daunting when the planning and progress of an annual report is the Key Performance Indicator (KPI) for one individual who must undertake their normal daily responsibilities while seeking to usher in a change management process. Those interested in moving towards integrated reporting will be looking for some guidance on 'how' an organisation might undertake that process.

Guidance on how to embark on the integrated reporting journey

While we accept that all organisations must undertake their individual journey on this issue, and there are other resources available to consult, such as the examples from the Pilot Programme, and various publications issued by participating IIRC members, CSA nonetheless notes that the IR Framework would be assisted if it clarified that integrated thinking cannot be achieved quickly and an integrated report will be a work in progress.

CSA strongly recommends that the Prototype Framework include guidance that an organisation can take some steps in its first year, and further steps in the second and third years, progressing toward a more sophisticated integrated report over time.

Providing guidance that an acceptable approach to commencing this change management process is to 'bite off what you can chew' would alleviate anxiety and encourage greater levels of participation.

The guidance could suggest that an organisation could consolidate its existing reports as a first step — while this is not integration, it can allow for improvements to financial information, sustainability reports and management commentary. Conciseness can be encouraged in the consolidation.

CSA notes that Australia already lags in the production of sustainability reports, with the Australian Council of Superannuation Investors' research on sustainability reporting practices of the S&P/ASX 200 over five years showing that there has been no consistent trend towards improved reporting, and the majority of companies continue to provide average to poor sustainability reporting.¹ Simply moving to sustainability reporting and seeking to consolidate this with financial reporting would be a significant improvement for many Australian listed companies, and a useful first step towards moving to integrated reporting.

The guidance could note that a second stage could be using management commentary to refocus business reporting around the organisation's business model and operational priorities. This is the beginning of an organisation 'telling its story', as it reports on the context in which the business operates and its strategy to address the opportunities and challenges it faces.

A third stage could be to report on the current shape and performance of the business, the likely effect of management's plans, external opportunities and other issues affecting the business, and also the 'game-changing' opportunities and risks. Incorporating forward-looking, strategic KPIs provides for reporting on the business year-to-year, so that investors can assess how the business is performing.

The guidance would therefore clarify that there is an evolution to the integration of critical business performance information, traditional financial reporting, management commentary and sustainability reporting to allow external analysts, investors and others to make informed judgements about the entity's prospects.

It could also include clarification that an organisation can report as much or as little as is relevant to the circumstances of the business, in that not all of the capitals set out in the Prototype Framework are applicable to all organisations (this is referred to in 2.15 on p 12 but it would be useful to set this out in the guidance on how to begin).

Guidance on need for board responsibility

CSA is also of the view that the IR Framework would be strengthened if it clarifies that, ultimately, the reporting on the performance and prospects of the organisation is the responsibility of the governing body, that being in Australia the board of directors. The collective

¹ Australian Council of Superannuation Investors, *Sustainability Reporting Practices of the S&P/ASX200, As at March 2012, Research Paper* noted that: '18% of ASX200 companies are considered to be Best Practice reporters on sustainability. This is a slight increase on 2011 findings (16.5%) and a substantial improvement since 2009 (10%), when ACSI expanded the research to cover the entire ASX200. [In 2012] almost half (49%) of ASX200 companies were rated as either No Reporting (34 companies) or Basic (64 companies). The comparable figure in 2009 was 57%. These findings indicate that there remains a significant number of listed Australian companies that do not appreciate the material significance of sustainability risks and the importance investors place on appropriate management of and disclosure around these risks', June 2012, Melbourne

mind of the board needs to be turned to how material sustainability is and can be embedded into strategy to sustain value creation. This could require a mindset change at board level.

It is imperative that integrated reporting not be considered solely a management issue, which is essentially the case for many companies regarding the current reporting requirements, notwithstanding that some may be board responsibilities. Collaboration of all parties is required — a strategic integrated thinking day for the board and senior management may be a good way of kick-starting the process.

CSA recommends that the Framework contain a paragraph noting the importance of collaboration of all parties and also pointing to the fact that integrated reporting is not a process that can be delegated to management but will require ongoing commitment from the board of directors itself.

Conclusion

CSA Members recognise that there is a range of issues and opportunities affecting long-term business value that is much broader than can be reflected in a set of current-year financial measures. CSA Members seek to provide reporting that provides a more comprehensive perspective on business performance and value.

We believe that some additional guidance in the IR Framework to assist those who wish to champion integrated reporting and seek board commitment to the change management process it entails will encourage greater participation.

CSA Members look forward to the release of the formal Consultation Draft of the Framework in April 2013, to which we will respond. We note it is to be followed by the final 'version 1.0' in December 2013.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim Sheehy', written in a cursive style.

Tim Sheehy
CHIEF EXECUTIVE