INTEGRATED REPORTING <IR>

11 November 2013

Ms Lynn Wood
Chairman
Financial Reporting Council
C/- The Treasury
Langton Crescent
Parkes ACT 2600
AUSTRALIA

Dear Lynn,

Re: Australian Financial Reporting Council's (FRC) Response to the IIRC's Consultation Draft on the International Integrated Reporting (<IR>) Framework

I would like to thank the Financial Reporting Council (FRC) for its response to the Consultation Draft ("CD") of the International Integrated Reporting Framework ("the Framework"), and particularly for its express support for "the goal that the IIRC has set for itself" (to create the globally accepted International <IR> Framework). Having considered and debated the comments made by the Australian FRC, together with the submissions of some 358 other organisations from every region in the world, I can confirm that the IIRC remains on course to release the Framework in December 2013.

Ahead of my visit to Australia in the week commencing 18 November, I wanted to write to you given:

- The specific challenges posed by the regulatory environment in Australia, and also the opportunity afforded by the introduction of the guidance note on the OFR; and
- The opportunity to include corporate reporting reform as part of Australia's leadership of the G20 and B20 in 2014.

This letter seeks to address each of the substantive issues raised by the FRC. The IIRC is not responding to each CD respondent. However, it is important to the IIRC that the FRC is not only supportive of its work, but also advocates constructive change in the Australian context – change aimed at bringing about a more cohesive reporting environment.

The table below responds to each of the FRC's concerns about the CD. I hope that we will be able to discuss these issues while I am in Australia later this month.

Detailed response to the FRC's comments

FRC Comments	Response for Australia
1.The critical importance of <IR> not adding, or being seen to add, unnecessarily to reporting burdens if it is to receive	**Integrated Reporting is consistent with the objectives and direction of the OFR in Australia. It provides the filter that enables the production of concise, decision-useful information required by providers of financial capital. The integrated report should be identifiable, but this does not mean it needs to be additional where existing reporting requirements are**

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"market-led adoption"	**consistent with the Framework.** For example, as the <IR> Framework will explicitly acknowledge, an integrated report can ***be prepared in response to existing compliance requirements*** such as a requirement to prepare a management commentary that provides context for its financial statements – e.g. ***the OFR in Australia***). It can also be included as a prominent and accessible part of another report or communication (e.g. a voluntary ***annual review***, ***investor presentation etc***). The IIRC's ambition is that, over time, Integrated Reporting will be the corporate reporting norm, where businesses are no longer expected to produce numerous, disconnected and static communications. This change will be driven by the process of integrated thinking, and the application of principles such as connectivity of information.
2. The relationship between <IR> and sustainability reporting needs to be more clearly explained	**There is no requirement in the Framework, implied or otherwise, to prepare a sustainability report. A sustainability report may be required by law, but is not in Australia.** An integrated report is ***none of*** an advanced sustainability report, an expanded financial report, or a combination of sustainability and financial reports. Sustainability reports are typically prepared in accordance with the GRI Framework. A sustainability report, if prepared, can provide **appropriate** information for inclusion in an integrated report **if material** to the reporting organisation.
3. Reporting for the "long term" concerns some stakeholders	Use of the <IR> Framework provides directors with a sound mechanism for ***managing their liability*** by providing suitable criteria for corporate reporting to accurately and fairly convey the strategy, governance, performance and prospects. The Framework retains the option of exclusion for an integrated report to not apply the Framework to the extent that ***specific legal prohibitions*** result in an inability to disclose material information. The Framework allows an integrated report to not apply the Framework to the extent that disclosure would cause ***significant competitive harm***. Forecasts and projections need not be included in an integrated report. There is no requirement to look out eight-to-ten years in an integrated report. An organisation ***may choose*** to report on such a time horizon ***if*** it is relevant to communicating the strategy, performance and prospects, and so be ***more conducive to financing long term investment***.

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	The timeframes adopted, and rationale, appropriate for ***each*** organisation would be disclosed in the Basis of Preparation element of the integrated report.
4. The "six capitals" will add to the volume and complexity of reporting and 6. The target audience for <IR> could be clearer	**There is no requirement to report against each of the six capitals. Value is not defined as the sum of the value of the six capitals in the Framework. There is no requirement to value any of the capitals, including financial capital. Using the six capitals will elucidate the value creation process - not add to the volume and complexity of corporate reporting**. The purpose of an integrated report has been clarified. The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time and ***improves the financial and other information provided to them***, ***better informing their capital allocation decisions,*** over a ***time horizon more appropriate to the organisation's strategy***. That is, the integrated report provides information about how the business' activities and outputs have improved, reduced or otherwise transformed the capitals so that the providers of financial capital can make better informed decisions, applying their ***own assumptions and judgements***. An integrated report benefits all stakeholders interested in an organisation's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.
5. The Framework is too theoretical rather than practical	**The IIRC has taken on board the FRC's comments about splitting the Framework – pulling more theoretical information on integrated thinking and Integrated Reporting into the Preface.** The development of the Framework has been market-led, informed by a ***global consultation*** on the CD producing 359 submissions, the ***experiences of more than 100 businesses and 50 institutional investors in the IIRC Pilot Programme***, the ***critique of institutional investors***, and ***three years*** of integrated reporting in ***South Africa***. The Framework identifies information to be included in an ***integrated report***. The IIRC provides ***examples of emerging practice in the field of Integrated Reporting across each content element and principle*** on its website, as well as ***case studies*** and ***feedback from pilots and the investor network***. The IIRC is also working with global report award organisations to get ***consistency in the selection criteria*** for <IR> awards. For example, in Australia in June 2013, the Australasian Reporting Awards presented their inaugural Integrated Reporting award, the criteria for which were derived from the Prototype of the <IR> Framework, being the version of the Framework available at the

FRC Comments	Response for Australia
	time of judging. Pleasingly, 22 organisations submitted their integrated reports for consideration, with bankmecu winning the award.
7. The materiality test does not necessarily address these concerns	**The term 'material' is on balance well understood in the reporting community and its application to an integrated report is adequately explained in the Framework.** Accordingly, while acknowledging concerns, the word 'material' will continue to be used in the Framework. **The Framework is designed to deliver an integrated report that is tailored to the circumstances of each reporting organisation**. We recognise that a large majority of listed companies in Australia are small or mid-sized, many of which will have less complex organisational structures than their larger counterparts. In these circumstances we anticipate, therefore, that the integrated report itself will be shorter and simpler, and capable of being incorporated within the OFR. Accordingly, ***as for the OFR in Australia***, the IIRC does not believe there needs to be any specific provision for proportionality as to the size of organisation that produces the integrated report.

FRC's Alternative and Simpler Suggestion

We believe that ASIC's RG247 *Effective disclosure in an operating and financial review* is aligned with a number of the guiding principles and content elements in the <IR> Framework and therefore demonstrates clearly and publicly the consistency between the two. Indeed, we believe that the OFR could be the vehicle used for the integrated report in the Australian context and to encourage further innovation in corporate reporting, without adding to the reporting burden.

Before concluding, I would like to emphasise that Australia's leadership of the G20 and B20 in 2014 provides a concrete opportunity for action in this area. Evidence shows us that reporting influences corporate and investor behaviour. Through the alignment of the OFR and Integrated Reporting, we can achieve a reporting environment that enhances the ability of businesses to access financial capital for investment, better facilitate trade and improve the prospects for increased financial stability. It would be very helpful if the FRC was able to advocate Integrated Reporting to the Australian G20 and B20 leaderships as a constructive change for a more cohesive reporting environment, particularly one more conducive to investment and trade, having considered changes made to the <IR> Framework in light of the recent consultation.

I hope this letter further underscores how Integrated Reporting seeks to improve the quality and value of corporate reporting to bring about the efficient capital allocation and productive investment needed worldwide.

I look forward to progressing our discussions later this month.

Yours sincerely,

Paul Druckman
Chief Executive Officer

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