

BEC Comments on Consultation Draft of the International <IR> Framework Integrated Reporting

Introduction

Business Environment Council Limited (“BEC”) has long been a strong advocate for corporate sustainability reporting and ESG disclosure. BEC is a membership-based organisation, with over 150 member companies including multinationals and conglomerates headquartered in Hong Kong and abroad, and small and medium-sized enterprises.

BEC would like to offer our views to the International Integrated Reporting Council (IIRC) on the Draft International Integrated Reporting (<IR>) Framework released on 16 April 2013. According to the Draft Framework, <IR> aims to promote concise communication about how a company’s strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. It is our understanding that this new reporting standard is currently attracting much attention worldwide and in Hong Kong, and aims to improve the way companies report their performance and how investors value them.¹

To gather initial stakeholder feedback on the Draft Framework and discuss its implications, BEC invited Dr. Jeanne Ng from CLP Holdings Limited and Mr. Robert Gibson from the City University of Hong Kong on 16 May 2013 to speak to BEC members on the Draft Framework’s key points and questions outlined in the consultation document. In addition, BEC hosted Paul Druckman, CEO of IIRC, for further dialogue at its offices on 26 June 2013 to consider the implications of <IR> on BEC members. Views put forward in this submission represent the views of BEC, and not necessarily its individual members.

Pre- and Post-Workshop Questionnaire

As part of the workshop activities on 16 May 2013, BEC assessed the opinions of participants by conducting a short pre- and post-workshop questionnaire. Each participant was asked to answer three yes/no questions ahead of the workshop as well as immediately following the closing of the table breakout discussion sessions. The post-workshop questions were administered via quick polling hence it was not possible to quantify responses. Participants represented a broad cross-section of industry stakeholders, ranging from large listed companies, to industry associations and financial services representatives. The information in the table below is presented solely for the benefit of IIRC and does not constitute the official position of BEC. The questions and results of the exercise were as follows:

¹ The full consultation document is available here for download:
<http://www.theiirc.org/consultationdraft2013/>

Survey Question	Pre-Workshop			Post-Workshop
	Yes	No	Un-certain	
<p>1. Do you agree that the primary intended report users of <IR> should be providers of financial capital*?</p> <p><i>*Providers of financial capital include: Equity and debt holders, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers.</i></p>	17 65%	8 31%	1 4%	Little change, as compared to Pre-Workshop
<p>2. Does the <IR> Framework provide a good basis for achieving IIRC's vision?</p> <p><i>The IIRC vision is for <IR> to be accepted globally as the corporate reporting norm, benefiting organizations, their investors and other stakeholders by enabling informed decision-making that leads to efficient capital allocation and the creation and preservation of value. By encouraging a different way of thinking, <IR> will contribute towards the advancement of a more sustainable global economy.</i></p>	23 88%	0	3 12%	Generally "Yes", but increase in "No", as compared to Pre-Workshop
<p>3. Should the HKEx make it 'best practice' for listed companies to produce an <IR> as their prime communication to shareholders?</p>	17 65%	1 4%	8 31%	Definite increase in "Uncertain", as compared to Pre-Workshop

Formulating the BEC Viewpoint

The questions and associated key points at the workshop in May plus the Dialogue with the IIRC CEO in June served as the basis for BEC to formulate its views on the <IR> Draft Consultation Framework, as follows below.

Question 1

Does the <IR> Framework help reporters focus more on long-term sustainability and less on short term profitability?

BEC generally understands how the framework would help reporters focus more on long-term sustainability and less on short term profitability. However, BEC recommends that IIRC make extra effort to clearly communicate the degree of additional value <IR> would add on top of the Annual Report and/or the Sustainability Report.

For various reasons, <IR> does not take a checklist-based approach to reporting. However, the principles-based approach advocated by IIRC must also balance materiality against the need for comparability between companies and across sectors, which may require reference to specific performance indicators or methodologies.

In terms of the quantity of information for disclosure, BEC generally feels that the required amount is adequate given that reporting organizations need to report on six types of “capitals” as defined in the Draft Framework. Realistically, however, many companies already prepare an Annual Report as well as a separate Sustainability Report in order to serve different stakeholders and regulatory functions. Hence, the <IR> must present compelling new information or insight into a company’s strategy or performance, beyond just repackaging information available in the other two reports. Only then will the <IR> gain wider traction amongst the corporate community. Alternatively, if <IR> can be applied to one of the existing reports, examples to demonstrate this would help to alleviate the impression that <IR> must be a stand alone document further to the Annual and Sustainability Reports.

Question 2

Does the <IR> Framework provide a realistic avenue for concise communication? If so, what areas in existing annual reports could be eliminated, shortened or made into supplementary documents on a company’s website?

BEC understands that IIRC promotes more “concise communication of value” by focusing on disclosure that is relevant, consistent and appropriate. However, BEC does not anticipate a reduced disclosure burden if <IR> became a mainstream reporting mechanism, primarily because existing annual reporting mechanisms would likely have to be maintained regardless of <IR>. Perhaps <IR> would be concise in communicating information, however this will not detract from the need to comply with statutory corporate reporting and thus <IR> would only add additional burden on business. BEC is not yet convinced that <IR> would effectively reduce the ever growing corporate disclosure burden until such time the framework becomes a statutory obligation for reporting companies. On the other hand, IIRC could collaborate with parties relevant to developing and implementing statutory reporting (such as IFRS, IASB, FASB, local regulators, etc.) to make it more streamlined but materially relevant, and/or more flexible in presenting the mandatory structured accounts versus the explanatory/contextual portions of the report.

BEC does appreciate that the <IR> reporting framework has been created to provide a broader, more long-term view on corporate performance by referencing financial, social, environmental, and other indicators. This is necessary given changing regulatory, market and global circumstances. However, there are still many questions about whether the <IR> framework is better than the current disclosure formats at reporting corporate performance. For instance, the issue of materiality and assurance are not yet explained in sufficient depth and clarity to provide comfort that <IR> will be applied consistently across companies.

Question 3

What areas in the framework would you like more guidance on?

BEC would like to see a more detailed and industry-relevant definition of “materiality” along with sector-specific guidance for their respective areas of business. In particular,

BEC would like some guidance for companies to help them better understand how to assess that the materiality process has been completed correctly. In addition, BEC would like further elaboration on the standard on assurance and auditing of information presented in an integrated report.

Building on the above, BEC would like to see the framework explain more on how it links with the IFRS and GRI as doing so would help companies who currently follow both standards to adopt <IR> much easier.

In addition, some level of guidance on how to put monetary value on intangibles would be useful.

Question 4

What is the area of most significant strength of the <IR> Framework? What is the area of most significant defect of the <IR> Framework?

Strengths:

- <IR> helps companies and investors understand a company's long-term strategy and performance potential
- Helps companies identify and assess risks and turn them into business opportunities
- Covers externalities / helps internalize externalities
- Relatively well balanced information from all aspects

Weaknesses:

- Too much discretion left to reporting companies in interpreting the framework
- The first page of the Consultation Document does not do a good job of explaining its benefit; as <IR> is a new concept to many people this explanation needs to be provided to the reader right upfront
- Concerned about being asked to disclose commercially sensitive and forward-looking information

Question 5

What other comments do you have on the consultation questions?

- Short and concise but should add a paragraph or two explaining the background
- Should get more government and regulator input
- Would be better if IIRC can publish an assessment report on pilot reports for businesses to use as reference
- Since it is a voluntary report, IIRC needs to further educate stakeholders and help them to better understand the benefits of reporting

Submitted by Business Environment Council Limited
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