G100 VIEWS

ON

INTEGRATED REPORTING

October 2012

1. The integrated report is described as a report that brings together material information about an organisation's strategy, governance, performance and prospects that reflects the commercial, social and environmental context within which it operates. The purpose of the integrated report is to provide a clear and concise representation of how an organisation demonstrates stewardship and how it creates and sustains value. However, there is currently a lack of clarity about the meaning and application of the concept.

2. The G100 considers that the process of corporate reporting is one of continuous improvement to enable directors and management to clearly articulate and better communicate the company's performance and value adding activities to shareholders and other users in a cost-effective manner. Integrated reporting offers opportunities to continue this process and should be allowed to evolve rather than rely on mandating black letter requirements as companies will respond to meet shareholder and market expectations. Voluntary initiatives are the best way of achieving progress rather than legislating a mandatory one-size-fits-all (tick the box) approach which is likely to be counterproductive. The quality, not the quantity, of the information reported is important to users. Market mechanisms are more likely to achieve this outcome than mandating an approach. The G100 will continue to actively monitor these developments to ensure that the interests and views of its members are effectively represented. This will be undertaken through engagement with the relevant bodies such as the International Integrated Reporting Committee (IIRC) and the Business Reporting Leaders Forum.

3. A perceived shortcoming of current practice and requirements is that an entity's value creation process is often not well explained to, and understood by, shareholders and other users of financial reports. While many companies presently provide this information to users in various forms, the development of a framework which focuses on strategy and performance has the potential to provide a consistent basis which should result in improvements in corporate reporting. However, in applying the principles it is important to recognise the challenges posed by the potential disclosure of commercially prejudicial information. In addition,, there are also potential regulatory concerns because the information reported by directors may not, for various reasons, be IFRS compliant and confront issues relating to the ASIC Regulatory Guide on non-IFRS reporting.

4. With the integration and inter-relationships in the international market place, action which is international in scope is the most efficient and effective way to address improvements in practice. An international framework will enhance consistently in approaches to reporting and enhance comparability between entities across borders. Accordingly, it is not an issue on which Australia should seek to be 'leading the world'. A significant issue once a framework is developed is one of who is to take responsibility/ownership of the project to keep it abreast of current developments and practice and how that organisation liaises with the various international bodies and national jurisdictions in ensuring implementation and compliance. In this context some alignment between the IIRC and the IASB and regulators needs to be achieved.

5. In Australia, the review of operations and financial condition, currently required under s300A of Corporations Act, provides opportunities for companies to further enhance the content of their reporting in response to changing expectations. For example, guidance developed by industry bodies etc such as the G100 "Guide to Review of Operations and Financial Condition" provides a more flexible approach to

achieving improvements than the imposition of mandatory requirements. However, before this occurs there needs to be a clear exposition of what is meant by integrated reporting and how it relates to (replaces) existing reporting frameworks. For example, a clearer link needs to be drawn between the target audience of the integrated report, their information needs, the proposed context of the report and the benefits flowing to the organisation from providing this information. It is important that the integrated report does not add to the disclosure load and impose significant additional compliance costs on companies.

6. The G100 considers that the development of a new framework, if developed in a manner which properly addresses deficiencies in the current model could bring greater coherence to reporting. In doing so it is important not to place excessive emphasis on meeting the asserted needs of vocal and influential lobby groups. While information on sustainability risks and their impacts on the business are important to users, integrated reporting should not be viewed as a vehicle for achieving sustainability reporting. Where relevant and material for the entity sustainability issues should be addressed as part of the normal reporting process such as the operating and financial review (see G100 *"Guide to Review of Operations and Financial Condition").*

7. Issues that need to be addressed include:
   - the potential liability regime confronting directors particularly in view of the disclosure of forward looking information and the quality of non-financial information
   - the nature and extent of assurance processes for the integrated report are not clear. Credible assurance processes and requirements for dealing with financial and non-financial information need to be developed and applied to maintain trust in reporting which flows from reliability and transparency
   - the status of any forward looking information provided, its accuracy and completeness
   - the application of materiality in the preparation of the report.

8. Summary points:
   a. Integrated reports must replace a current reporting requirement and not just be an addition to current requirements.

   b. An integrated reporting framework is best developed internationally and Australia should not prematurely adopt proposals.

   c. Focus of reporting should be on meaningful information for users and should not be driven by special interest groups.

   d. Clarification is required in respect of:

      - Information needs the integrated report seeks to satisfy

      - the effect on the liability of directors

      - the assurance regime and the auditability of the report

      - how reporting will work in the context of ASIC's non-IFRS reporting guidance.