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CRUF comment letter on the IIRC Discussion Paper “Assurance on <IR>”

We, the Corporate Reporting Users' Forum, greatly appreciate the opportunity to present our view on the IIRC's discussion paper, “Assurance on <IR>: an introduction to the discussion”.

The DP appears to be based upon the premise or the philosophy that the assurance of integrated reports is useful and crucial to enhancing the credibility of integrated reporting <IR>, as well as to improve the trust investors and other stakeholders place on it. However, the discussion among CRUF participants (primarily in Japan), has revealed that the majority of us believe it is too early to deliberate how that premise or philosophy should affect the assurance on <IR> because we are concerned that it does not necessarily appear to be shared among the stakeholders.

Fundamental principles of integrated reports

Needless to say, it is so apparent that financial information alone is not sufficient for investors or users of financial statements to fully understand the entities in which they might invest. Non-financial information is equally relevant. We recognize that integrated reports were devised to provide financial and non-financial information simultaneously in an integrated manner to address the needs of the investors who



see particular importance in the strategy and philosophy of the entities' management. Regrettably, it is said that very few integrated reports are in fact fully compliant with the IIRC framework at this point in time.

We understand that a fundamental aspect of integrated reports is to allow a reporting entity to better communicate with the investors and the users of its financial statements, giving them a deeper understanding of the company's ability to create value over the medium- to long-term. They also allow reporting entities to exercise their creative ingenuity when preparing their own integrated reports. If we look at the current situation from this point of view, we find that there are many so-called "integrated reports" and annual reports in various formats, which are not necessarily compliant with the IIRC framework. That said, we at the same time notice that the increasing numbers of annual reports are now providing the investors and other users with high-quality relevant information, which is useful to their decision making regardless of the format. Given this situation, we believe it is too early to discuss whether audit or assurance on the integrated reports should be required based upon the DP.

Financial vs. Non-financial information

Financial information including non-GAAP/ non-IFRS information as well as non-financial information provided in an integrated report should not be regarded as independent per se. Rather, we believe it is crucially important for these two types of information to be presented in an integrated manner so that the investors and other users of financial statements could easily understand the interlinkages between them. For example, an integrated report could not meet its goal if it fails to let investors understand the implications that the non-financial information, such as that provided in an ESG report, has on the financial information, or the interlinkage between them.

Meanwhile, it should be borne in mind that there are two types of non-financial information: quantitative and qualitative. We are particularly concerned that



reporting of non-financial reporting, such as ESG reports, are still under development compared to financial reporting, which is well-established. It therefore appears too early for us to discuss how auditing and assurance on integrated reports should be as a whole at this point in time.

Limits of Assurance by CPAs

We do not completely deny the necessity of assurance on the accuracy of the information provided in integrated reports. Rather, we believe that an integrated report should be either audited or assured, if it is a legal document that national regulators require reporting entities to submit to protect investors and the other financial statement users. For example, the Johannesburg Exchange in South Africa requires listed companies to publish integrated reports. It appears to be legitimate that the Exchange requires assurance on the documents.

While the International Auditing and Assurance Standards Board (IAASB) has expressed its support for <IR>, the Board appears to be reluctant to actively develop auditing and assurance standards for it. Regrettably, it has yet to be fully proven that the IIRC's framework would work in practice. The ultimate format of the integrated report to best serve investors' interests has yet to be found. Under such circumstances, the IAASB's reluctance may be justified because it is not clear whether or not the auditing or assurance on the integrated reports would surely work, even if the IAASB develops the auditing and assurance standards.

CPAs are experts on financial auditing. They are savvy about auditing GAAP information, but not so on non-financial information. An auditing and assurance process developed for non-financial information would probably end up with needing numerous experts in the various areas covered to assure and sign the integrated report, deviating from the auditing framework we have today for financial information. However, if auditing or assurance is performed only by CPAs (as they do today for financial information), we would have to accept the enormous costs associated with



the additional education and on-the-job training necessary to get CPAs familiar with the assurance of non-financial information.

Scope of auditing or assurance on <IR>

Integrated reports contain GAAP and non-GAAP information, similar to the financial reports. We believe it would be sufficient that such information is audited only by CPAs. We also believe the scope of assurance on integrated reports should only cover quantitative non-financial information, including non-GAAP information not currently included in the financial reports. For example, it might be appropriate for CPAs to audit non-financial information such as remuneration for the members of the board of directors because it is easily quantified and has clear relationship with financial information. We also believe that performance-related non-GAAP information might be assured as long as it represents the entity's actual results. However, in our opinion any forward-looking numbers or statements should be excluded from the scope of assurance on the integrated reports.

We are concerned that reporting entities might become hesitant about providing investors with unquantifiable non-financial information, which is decision useful, if excessively rigorous audit or assurance is required. For example, the mission statement written by an outside director himself or herself is very useful information for investors to evaluate his or her important aptitude in the context of corporate governance. We do not believe it is possible, and even may be rather harmful, to require assurance by CPAs on such unquantifiable non-financial information. We are concerned that overly strict assurance requirements may simply result in boiler plate disclosure, departing from the original goal of integrated reporting.

We recommend that the IIRC begin with (1) identifying the scope of auditing or assurance on integrated reports and (2) disclosing clearly which sections are audited or not, so that investors and users of the reports will be able to easily understand the distinction.



We believe that it is too early and unrealistic to require auditing and assurance of integrated reports at this point in time. Before that, the IIRC should encourage reporting entities to exercise their ingenuity in order to develop an integrated report that is truly useful to investors. We believe it is management's responsibility to assure the quality of the contents and information in the entity's integrated report through such measures as leadership, internal systems and internal audit as well as stakeholder involvement. We believe it is more effective that management make a commitment to establishing the internal systems needed to disclose accurate and consistent information in order to improve the quality of the contents and information of the integrated reports, rather than being required to obtain auditing and assurance on those reports without due deliberation.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organizations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organizations. The CRUF does not seek to achieve consensus views. However, it would not be correct to assume that those individuals



The Corporate Reporting Users' Forum

who do not participate in a given initiative disagree with that initiative. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

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The Corporate Reporting Users' Forum

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