

PRACTICENOTES

King III Chapter 9
The integrated report

June 2014

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The integrated report

Purpose of the practice note

This practice note aims to clarify the different purposes of King III and the International <IR> Framework (FW) with regards to integrated reporting, and to provide guidance on reconciling the two documents.

Introduction and background

King III¹ recommends integrated reporting to reflect the business reality that strategy, risk, performance and sustainability have become inseparable. This integrated thinking is evidenced in an integrated report.

The JSE² has adopted the King III principles as part of its Listings Requirements which require companies to apply the King III principles, or explain which principles have not been applied and provide reasons therefore.

Subsequent to the release of King III in September 2009, the Integrated Reporting Committee of South Africa (IRC)³ was formed in May 2010.

The International Integrated Reporting Council (IIRC)⁴ was then formed in July 2010. The IIRC is the global authority on integrated reporting and its mission is to enable Integrated Reporting to be embedded into mainstream business practice in the public and private sectors.

In December 2013, the IIRC released the International <IR>Framework (FW).

The IRC has played a role in the development of the FW and in March 2014 endorsed the FW as guidance on good practice on how to prepare an integrated report.

The King Committee is also supportive of the initiative embarked upon by the IIRC as detailed guidance is required in order to give integrated reporting the required impetus and to lay down international standardised guidelines.

The purpose of King III and the FW

King III's purpose in this regard sets out the principles relating to integrated reporting (i.e. the what), and is not meant to be prescriptive on the content or format of the integrated report. Whilst some elements of content and format were included in the King III recommendations, this was done at a time when there was no other guidance on the matter.

Subsequently, the FW was released with the purpose of establishing guiding principles and content elements that govern the content of an integrated report (i.e. the how to), thus providing additional clarity to the market in this regard.

As such, the principles and practice recommendations of King III operate on a conceptual level whereas the FW offers implementation guidance.

¹ <http://www.iodsa.co.za/?page=kingIII>

² <https://www.jse.co.za/>

³ <http://www.sustainabilitysa.org/IntegratedReporting/TheIntegratedReportingCommitteeofSouthAfrica.aspx>

⁴ <http://www.theiirc.org/>

The apply or explain approach of King III allows for the FW to be used as guidance, and if issuers are of the view that a principle of King III is not being met by applying the FW then they must explain this in their integrated report.

Purpose of the integrated report

One of the areas where different approaches have been followed between King III and the FW is that King III recommends a stakeholder inclusive approach to governance, which is also evidenced in the Companies Act. The FW, however, is geared towards the primary purpose of the report being to explain to providers of financial capital how an organisation creates value over time. In other words, when deciding on what gets included in a report it is what substantively affects the organisation's ability to create value over time; with the providers of financial capital serving as a "filter" of information. The FW states that this report benefits all stakeholders interested in an organisation's ability to create value over time.

The FW is flexible enough (section 1E) so that if a company wants to address its report to all stakeholders it can do so and still meet the FW's requirements. All it needs to do is ensure that such other information is separately identified in the report.

Companies need to consider what approach may be most appropriate for them. Should they wish to comply with the FW and consider that this would result in difficulty with applying certain principles of King III, the board will need to apply its mind and to ensure that its approach is explained in a transparent fashion.

Specific disclosures in the integrated report

With regards to the specific disclosures in the integrated report, a board should apply its mind as to what is in best interests of the company and explain if not disclosing in terms of King III.

Section 1E of the FW, specifically the section of 1.14 which states that "If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework" allows for other pertinent information to be included in the report.

Format of the integrated report

The approach taken in King III was that the form of the integrated report is less important than the substance of evidencing the integrated thinking of the collective mind of the board. Hence, it was neither the intention nor the purpose and role of King III to be prescriptive on the format of the integrated report.

There may be a single integrated report or a suite of reports containing integrated information and consisting of the annual financial statements and in addition any one or more of the following at the discretion of the company: sustainability, social and ethics, governance, environmental, remuneration, management and corporate citizenship reports, etc.

The understanding as set out above is borne out by paragraph 1 of Chapter 9: Integrated Reporting and Disclosure: *Integrated reporting means a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability. This can take the form of a single*

report or dual reports. The emphasis is on substance over form and integration should not be reduced merely to the manifestation in physical terms of one or more documents. While a truly integrated report should be presented in one document, it can be presented in more than one document. If the integrated report encompasses more than one document, the documents should be made available at the same time and disclosed as an integrated report.

As the purpose of the FW is to establish guiding principles and content elements for the integrated report, these guidelines are more prescriptive on the format of the report.

It should be noted that the FW allows flexibility in the form of the integrated report (section 1E). So while a report should be "a designated, identifiable communication", the FW allows it be a standalone report or be included as a distinguishable, prominent and accessible part of another report. This affords a company adequate choice on the form of its integrated report.

Conclusion

King III and the FW issued by the IIRC address different purposes with regards to the integrated report. The former is to lay down the principles relating to integrated reporting (ie the what), and not to be prescriptive on the content or format of the integrated report. The latter establishes guiding principles and content elements that govern the overall content of an integrated report (ie the how to).

Neither King III nor the FW advocates mindless application and the board should apply its collective judgement in the best interest of the company when considering the requirements of the FW or King III.