Mr Paul Druckman
Chief Executive Officer
The IIRC
29 Lincoln's Inn Fields
London
WC2A 3EE

15 July 2013

Dear Mr Druckman

Standard Life Investments Limited, a subsidiary of Standard Life plc, is a major global investor, based in Edinburgh, with assets under management of £179.1 billion as at 31 March 2013. For Standard Life Investments, governance, stewardship and sustainability are integral to our investment process. We believe that corporate stewardship, and the ways in which companies manage social and environmental issues, have a fundamental impact on the achievement of long-term investment returns.

We invest around the world in the securities of a wide range of public and private companies and, in so doing, place reliance on the audited financial statements and annual reports prepared by these companies. As we explained in our earlier response to the IIRC Discussion Paper 'Towards Integrated Reporting: Communicating Value in the 21st Century', we are concerned that corporate reporting is increasingly no longer 'fit for purpose'. Accounting standards are more and more complex and investors face challenges interpreting the large amount of data contained in company reports. We welcome the Integrated Reporting initiative as a credible and coherent means of addressing these issues by presenting a concise, yet holistic, view of a company's value creation over time, incorporating both material financial and non-financial information. We hope that this initiative will ultimately lead to improved communication between companies and their stakeholders, thereby achieving effective accountability and sound stewardship. Hence, we are pleased to submit our response to the consultation on the Draft Framework for Integrated Reporting. In preparing this response, we have liaised with our parent, Standard Life plc, who will be required to address the practical implications of moving to the new framework but would hope to reap the benefits in due course.

We have made a number of specific points under the relevant questions, but would also make the following overarching comments as part of our response.

We strongly support a principles-based approach to Integrated Reporting which offers a means of integrating financial and non-financial information using existing standards and guidance rather than requiring the development of new standards or methodology. This is particularly important given the proliferation of existing initiatives in the area of sustainability reporting: the recent Carrots and Sticks report[1]

[1] Carrots and Sticks, June 2013, published with input from The Global Reporting Initiative, the United Nations Environment Programme, KPMG and the Centre for Corporate Governance in Africa

highlighted that there are currently 180 initiatives in 45 countries and regions. A principles based approach may be the only way of bringing these initiatives together into a more coherent whole.

There is also a role for Integrated Reporting to play in rebuilding trust. Trust in the listed company model has been eroded in recent years, particularly in the financial services sector, and there is concern about the short term nature of the capital markets. Current corporate reporting, based on historic financial data, is predominantly focused on economic decision-making and short term value drivers but does not recognise the increasing importance of stewardship and sustainability. Integrated Reporting provides an opportunity to go beyond this short term focus and to enable companies to demonstrate more clearly their stewardship and social utility, as well economic value. However, in doing so, the primary intended audience remains the providers of financial capital, particularly equity capital, and the concept of value creation must also acknowledge this primacy. Shareholders are the providers of risk capital and the long term sustainability of the company will not be assured unless they earn an adequate return on this capital. It would be helpful if this were acknowledged in the Framework.

With reference to the principles of Integrated Reporting, we would like to stress the importance of the principle of materiality and conciseness. Within the context of a coherent overall report, improving communication should be a priority. Cutting the clutter, and getting the right balance between information and communication, will be crucial.

As to the future, we do not underestimate the challenges that Integrated Reporting presents for companies, assurance providers and stakeholders. Establishing the credibility of Integrated Reporting will take time and effort from all involved: companies in evolving their reporting approach and mindset; auditors in considering how they can best deliver the desired assurance; and investors and other stakeholders in giving thoughtful consideration to the resulting communications. Over time, the IIRC also has an important role to play by taking the lead in monitoring the specific measures and methods used to apply the principles of Integrated Reporting with the aim of identifying and promoting best practice. If this is not done, there is a risk that Integrated Reporting will take longer to achieve its full potential and deliver the desired benefits.

We trust that the IIRC will find our comments helpful as it moves forward with this important project.

Yours sincerely

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Responses to specific questions

The following provides our comments on a number of the specific questions in the discussion paper.

Q1Should any additional principles based requirements be added or should any be eliminated or changed?

We do not believe any additional principles should be added nor that any need to be eliminated.

However, with regard to the principle of Stakeholder Responsiveness, we feel it is important to indicate boundaries with regard to the expectation that companies will consult with stakeholders. Although the Framework references key stakeholders, this is open to interpretation. Companies may face pressure to engage with a large number of stakeholders, all of whom may feel they deserve to be heard but not all of whom will be equally important nor indeed will be equally prepared for the task. There is a risk this hinders decision-making and, by setting unrealistic expectations, actually damages reputation. Companies with a large number of retail shareholders, such as Standard Life plc, would need to consider carefully how to engage with this stakeholder population to reflect their different needs and interests.

Q2 Do you agree with how paragraphs 1.18-1.20 characterise the interaction with other reports and communications?

From our perspective, it is crucial that Integrated Reporting is used as the basis for the principal reporting document that companies in any given jurisdiction are required to publish/file. In most cases, this will be the company's Annual Report including the financial statements. It is important that Integrated Reporting should not apply to narrative reporting in isolation but, via the emphasis on value creation, should also impact on the approach to financial reporting e.g. judgements regarding materiality.

With regard to the interaction with other communication, while integrated thinking is an important outcome of Integrated Reporting and should run through all of a company's communications, we would caution against the idea that the principles and process of Integrated Reporting should be applied equally to all aspects of communication e.g. analyst calls. There is a risk that this constrains less formal communication: companies and management may feel unwilling to communicate without going through a process to confirm 'compliance' with the IR Framework. Hence it is important to ensure that a measured approach is used.

Q5 Do you agree with this approach to the capitals?

We agree with the suggested approach. However, with regard to the comment that this categorisation is not ‘required’ to be adopted, we would suggest the Framework be explicit that there is an expectation that most organisations will use it. This will help ensure greater consistency and help stakeholders, such as retail shareholders, understand the context more easily.

We note that capital provided from grants is characterised as ‘financial capital’. It is usually the case that the providers of such capital are not seeking a return in the same fashion as the providers of equity or debt capital. Hence, it should be made clear that the primary users of the Integrated Report would not normally include the providers of grant capital.

Q10Please provide any other comments about Chapter 2 (Fundamental Concepts) that are not already addressed by your responses above.

With regard to the meaning of value, it is crucial to long term sustainability that there is sufficient value creation to allow an adequate return to the providers of financial capital, particularly shareholders who are the owners of the business and the providers of risk capital. It would be helpful if this were acknowledged in the Framework.

The Framework present value creation as an aggregate of the value transformation undergone by all of the capitals used in the business. From the standpoint of the provider of financial capital, this is a problematic definition – whilst there will be trade offs and impacts arising from a company’s use of the capitals, value creation should focus on financial capital whilst acknowledging and explaining these various trade offs. It may also be useful, when thinking about the capitals, to acknowledge that some can more easily be ascribed a value than others e.g. can be bought or sold, as opposed to more intangible capital such as reputation or employee skills and experience.

In relation to value creation, paragraph 2.39 states that Integrated Reporting helps the providers of financial capital make decisions and assess value creation over time. It goes on to say that Integrated Reporting also supports broader societal interests by encouraging the allocation of financial capital to support value creation ‘within planetary limits and societal expectations’. There is a risk that this is an overly broad definition and will encourage unrealistic expectations of what Integrated Reporting can deliver. While companies should, and do, take account of their impact on the various capitals which they interact with and effect, they should not be expected to report in a way which implies direct responsibility for global issues that are, more rightly, the responsibility of nation states and governments.

We note the comments regarding the determination of the reporting boundary for Integrated Reporting which should take account of the financial reporting entity but also of opportunities and risks related to other entities or stakeholders that have a material effect on the ability of the financial reporting entity to create value over time. We would expect that such opportunities and risks, where material, will be captured within the contents of the Integrated Report under the sections covering external environment and/or opportunities and risks. Hence we are unsure why the reporting boundary needs to be defined in this way. Setting the boundary with regard to financial reporting purposes should be sufficient to capture what is required.

Q11Do you agree with this approach to materiality?
Q12Please provide any other comments about Section 3D (Materiality & Conciseness) or the Materiality determination process.

The Framework suggests that materiality should be assessed by the primary intended report-users (i.e. providers of financial capital). Although these individuals have an important role to play in holding management and boards to account for their judgements in this area, it is the role of management and boards to make these assessments, having regard to standards within their relevant sectors. There is also an important role for auditors to play in assurance regarding this issue.

With regard to conciseness, current reporting suffers from too much clutter. The Framework should make it clear that the Integrated Report as a whole should be concise and not just the individual pieces of information that it contains. This is a key requirement and, if it is not achieved, Integrated Reporting will not have delivered its full promise. We recognise that this may take time to implement as it will, particularly for regulated industries, require the involvement of regulators and standard setters.

Q19If assurance is to be obtained, should it cover the integrated report as a whole or specific aspects of the report?
Q20Please provide any other comments you have about credibility.

As investors, it is important that we can rely on the reports provided by the companies we invest in. Assurance is an important element of the reporting process and lends credibility to the output. Hence assurance should be obtained and, ideally, should cover the whole report.

Currently, auditors are required to report on anything in the narrative reporting which is not consistent with the work done during the audit. However, auditing standard setters are currently considering how a more positive form of assurance can be provided on narrative reporting. We strongly support this move. One particular approach worth highlighting is that of the ‘balanced and reasonable’ opinion as advocated by the Institute of Chartered Accountants of Scotland in their paper on The Future of Assurance, published in December 2010. This approach has been further developed in a discussion document published in April 2013. Certain aspects of this approach may be of interest in taking this debate forward.

As a general point, it is also important to us that all external assurance opinions are available in one place.

Finally, there is a role for the Audit Committee to play in assurance. Their report should provide an informative account of the assurance process, both internal and external, and explain how risks were addressed.