

28 February 2022

Dear Shameela

**Integrated Reporting Committee (IRC) of South Africa – Comment Submission to the JSE**

The Integrated Reporting Committee of South Africa (IRC) expresses its appreciation for the JSE's continued efforts to promote the quality and accessibility of corporate disclosure, especially on sustainability and climate matters.

Our consideration of the draft *JSE Sustainability Disclosure Guidance* (Guidance) focuses on the integrated reporting aspect of the Guidance, however, other high-level comments on the timing of the Guidance and sustainability aspects have been included. With this cover letter we respectfully highlight our key concerns for the JSE's consideration.

We have some reservations about the release of the Guidance prior to the International Sustainability Standards Board's (ISSB) 'General Requirements for Disclosure of Sustainability-related Financial Information' and 'Climate-related Disclosures', which are expected to be released as Exposure Drafts within the next month and set to become IFRS Sustainability Standards later this year. We submit that there is potential for confusion in an already-complex area and may necessitate the JSE reconsidering its Guidance should there be misalignment with the ISSB standards. Local guidance may have optimal impact if it's issued after the international standards are in place and the local position relative to these standards is clearer.

The Guidance contains a recommendation on the format of reporting with specific reference to the integrated report, and it positions 'double materiality' only in the sustainability report with the integrated report focused on enterprise value rather than broader value creation, preservation or erosion. Allow us to note for the record that the IRC was not asked for input on this recommendation prior to publication. As the national body, of which the JSE is a founding member, we have valuable input to share on integrated reporting and believe that a united voice in this area can lessen confusion in the local market.

The IRC Constitution sets its role as providing direction, monitoring and strategic thinking on matters relating to integrated reporting. Its objects include to establish what the IRC considers as good practice, to promote and encourage integrated reports, and to promote the international harmonisation of integrated reporting and in this regard to consider the King Reports on Corporate Governance.

We submit that given the current uncertainty in international corporate reporting, it is not ideal to be pre-emptive or prescriptive about reporting format at this stage. Once the international standards are clear, the next step is consideration within the context of local regulations and practices, including the concepts, principles and recommended practices of King IV as the prevailing corporate governance code.

The ISSB standards will set the global 'baseline' of sustainability disclosure in different countries and could see many more organisations around the world implementing sustainability reporting. The IFRS Foundation has stated that it will adopt a 'building blocks' approach, whereby the standards will facilitate inter-operability with jurisdictional requirements to meet wider stakeholder information needs. Thus, a 'layered' approach to reporting will be possible in each country, including South Africa, that adopts the standards.

We look forward to working with the JSE and the King Committee in developing suitable local guidance on integrated reporting that blends with international standards.

Yours sincerely

Leigh Roberts CA(SA)

CEO – IRC of South Africa

## **Questions as per the online feedback form**

### **Regarding the Sustainability Disclosure Guidance -Narrative Disclosures (pages 27 - 29)**

4. Should any of the proposed disclosures be deleted or substantially revised?

- **Yes**
- No, changes needed
- if Yes, then please motivate and provide proposal

- Principles for useful sustainability data and an effective sustainability report (page 23).
  - Consider including a time frame in the definitions of relevant principles - including Accuracy, Balance and Sustainability context - because it is unclear as to whether it is the short-term that is being referred to or the short, medium and long term.
  - Comparability: It may be useful to include reference to the use of industry benchmarks where these exist.
  - Stakeholder inclusive: Consider the inclusion of information on the quality of the key stakeholder relationships.
  - Timeliness: The principle refers to 'regular schedule'; consider stating as 'at least once a year', and where a separate sustainability report is issued this should be at the same time as the integrated report and financial statements.
  - Completeness: Consider changing 'over time' to the 'reporting period'.
  - Sustainability context: It may be useful to include a link to the 'environmental thresholds and social pressures' in the Guidance so that it is clear as to what is meant by this requirement.
  - Material in terms of enterprise value and/or impact on society and the environment: Clarity is needed in the wording here as the principle states 'and/or' whereas the bullet points have an 'and' in between them.
- Narrative disclosures (pages 27 - 29)
  - Governance: Consider cross-referencing to the relevant disclosures on governance in King IV to align and avoid information duplication. Also, consider the inclusion of Purpose, for instance, how the board sets and reviews the organisation's purpose with regard to society and the environment.
  - Strategy: Consider adding an explanation of how the needs, interests and expectations of stakeholders are considered in developing and updating the organisation's strategy.
  - Management Approach: Consider explanatory information from an organisation on how it integrates accountability for sustainable development (including respect for human rights and other responsible business practices) and impact management into organisational culture, business operations, day-to-day roles, cross-functional teams and decision-making processes.

5. Are there any additional issues that should be provided for?

- Yes**
- No changes needed
- if Yes, then please motivate and provide proposal

It might be useful for organisations to report on progress against public commitments regarding sustainability initiatives, examples include Net Zero targets, Food Loss and Waste commitments, SA Plastic PACT commitments, and progress against SDG targets.

### **On the Sustainability Metrics (pages 25 - 29)**

6. Should any of the proposed metrics be deleted or substantially revised?

- Yes**
- No changes needed
- if Yes, then please motivate and provide proposal

With reference to our comment under Question 4 as it relates to Governance, consider a review of the indicators to align and cross-reference to King IV. Also, a reference to a kaleidoscope of skills on the board and available for informed decision-making.

7. Are there any additional issues that should be provided for?

- Yes
- No changes needed**
- if Yes, then please motivate and provide proposal

8. Do you have any suggested changes to the proposed allocation of Core and Leadership metrics?

- Yes
- No changes needed**
- if Yes, then please motivate and provide proposal

### **Regarding the Climate Disclosure Guidance**

9. Are there any issues in the Climate Disclosure Guidance that need further clarification or additional guidance?

- Yes**
- No changes needed
- if Yes, then please clarify

- The Climate Change Prototype is publicly available (the ISSB Exposure Draft is expected to be based on this); should the Guidance not align with the approach and guidance in the Prototype as a starting point? Further, once the ISSB climate standard is released (expected in 2022) should local companies follow that, or should it be followed in parallel?
- The 2<sup>nd</sup> paragraph, 2<sup>nd</sup> column on page 35, refers to recommendations that climate information should be in the annual or integrated report. This appears to be at odds with the recommendation in the General Sustainability Guidance that significant impacts could appear in the sustainability report, not the annual or integrated report. (Also refer to our covering comment on a collaborative discussion regarding the recommendation relating to reporting format.)

10. Are there any changes proposed for the TCFD Checklist?

- Yes
- **No changes needed**
- if Yes, then please clarify

## General

11. Do you have any other comments on the Disclosure Guidance Documents?

Please refer to our covering letter together with our further comments below.

We have concerns regarding the approach to integrated reporting as recommended in the Guidance, as well as in relation to its execution. These include:

### **King IV alignment**

We defer to the views of the King Committee on whether or not the Guidance is aligned with the concepts, principles and recommended practices of King IV. The pertinent issues include:

- The integrated report as the ‘story of the company’ reflecting its impacts on society and the environment over time.
- Value creation, preservation or erosion on the six capitals vs enterprise value.
- The target audience of the integrated report in the light of King IV’s Principle 5..
- The concept of ‘double materiality’ and its application, per the Guidance, to only the sustainability report and not the integrated report. Further, the application of this concept is still being debated internationally.
- King IV’s Principle 16 requires an organisation’s governing body to take a stakeholder-inclusive approach to executing its roles and responsibilities (which include reporting as the ‘culmination of a series of leadership responsibilities executed by the governing body’ (Fundamental Concepts page 28)) and how this concept is applied in relation to the recommendation in the Guidance.
- The continued applicability of the IRC’s octopus approach to the corporate reporting suite.

**It is the IRC's view that the integrated report is a complete report showing a holistic and balanced view of the organisation, its governance, strategy, risks and opportunities, performance and prospects over the short, medium and long term. It includes both the impacts on the organisation and its significant impacts on the six capitals over time. An organisation's material issues have to be disclosed otherwise the governing body would be failing in its duty of care, and we contend that the best place is in the integrated report.**

### **Assurance**

The concept of assurance is an emerging issue of prominence which is the subject of extensive international discussions. With other jurisdictions moving toward mandatory external assurance the question arises as to whether this will also become a JSE requirement in the not too distant future. The Guidance does not explore this issue, nor give reference to combined assurance as recommended in King IV.

### **Specific comments on the Guidance not covered in other questions**

- Page 10 – In referring to enterprise value and sustainability it is useful to reinforce the objective of integrated thinking and reporting to avoid inadvertently advancing silo thinking. Further on this page, it is suggested to also bring in the concept of avoiding value erosion in addition to reference to value creation.
- Page 13 – Setting out the business case for sustainability disclosure is useful information, however, also particularly relevant, especially in the South African context, is to highlight that ethical and effective leadership is about responsible leadership and that another basis for sustainability disclosure (particularly of impacts) flows from this very responsibility and the need for transparency.
- Page 18 – States that the chosen format for disclosing sustainability information 'depends on the report's purpose and its intended target audience'. The figure on page 22 notes that in some instances disclosure may include direct engagements, marketing documents or electronic media, rather than a traditional report. It is noted, however, that direct engagement may be insufficient if the information/data that is shared is material and not in the public domain at the time of the engagement.
- Page 19 – Provides an overview of different views on materiality. This could affect an organisation's determination of what is material for disclosure. We wonder whether the different perspectives on materiality may reinforce silo thinking.
- Page 20 - Refers to the IFRS term 'general purpose financial reporting' and states that in South Africa this is primarily the annual integrated report. It is our understanding that some accounting experts are of the view that general purpose financial reporting refers broadly to the financial statements (or other documents) prepared for external users.
- The practical suggestions on page 22 and the principles on page 23 are useful and neutrally expressed (also refer to earlier comments on the principles). Consider using these aspects as a consistent basis for the Guidance, focusing on the substance of disclosure.