PAFA
PAN AFRICAN FEDERATION OF ACCOUNTANTS

TECHNICAL BULLETIN

April 2015 I **VOLOME 1**

TABLE OF CONTENTS

in association with:

Sizwe Ntsaluba Gobodo
AUDIT • ADVISORY • FORENSICS

Technical queries email: technicalhelp@pafa.org.za

OPPORTUNITY. EXCEEDED.

1.1. NOTES FROM THE EDITORS

As with all good things, change is inevitable. In the wise words of George Bernard Shaw "progress is impossible without change, and those who cannot change their minds cannot change anything". This month's PAFA is packed full of changes, which informs forward thinking.

Change is the law of life. And those who only look at the past or present are certain to miss the future.

Embrace the change!

Cynthia Mbili *CA (SA)*
Technical Director **SizweNtsalubaGobodo**

1.2. FOREWORD BY CEO

I welcome you to our first Technical Bulletin for the year 2015. You will notice that we have now moved from a monthly bulletin to a quarterly one. It was our considered view that a monthly production was starting to create an information overload. We will still welcome your views on this change.

We trust the Technical Bulletin will continue to provide you with information that you will find useful.

2015 Events

08 May 2015 – Standard Setters/Technical Forum (Mauritius

11 May 2015 – General Assembly - Mauritius

12, 13 and 14 May 2015 - African Congress of Accountants –Mauritius

14 May 2015 – PAFA Board meeting

Vickson Ncube

Chief Executive Officer

2. THE IASB'S RECENT DEVELOPMENTS

Introduction

The IASB Update is a staff summary of the tentative decisions reached by the IASB in its public meetings. The IASB continuously have projects running relating to the improvements, amendments and advancement of accounting standards. The IASB met in public from 18-20 February 2015 at the IASB offices in London, UK to discuss the development of accounting standards outlined below. Developments relating to the following standards were discussed; IFRS for SMEs, IFRS 14: *Regulatory Deferral Accounts,* IFRS 15: *Revenue from Contracts with Customers,* IFRS 4: *Insurance contracts,* IFRS 3: *Business Combinations,* IAS 1: *Disclosure Initiative, Leases and* IFRS 9 Financial Instruments: *Accounting for Dynamic Risk Management*

IFRS *for SMEs:* Comprehensive review of the *IFRS for SMEs* (Agenda Paper 5)

The discussion was on the procedures surrounding future reviews of the IFRS for SMEs.

The IASB considered the comments made by respondents to the Exposure Draft Proposed amendments to the IFRS for SMEs, on the process for future reviews of the IFRS for SMEs.

The IASB tentatively decided that:

- comprehensive reviews of the IFRS for SMEs should commence approximately two years after the effective date of amendments to the IFRS for SMEs resulting from a previous comprehensive review. Comprehensive reviews should generally begin with the issuance of a Request for Information.
- between comprehensive reviews, the IASB, with input from the SME Implementation Group, would consider whether there is a need for an interim review to address any new and revised IFRSs not yet incorporated or urgent amendments.
- this process would mean that amendments to the IFRS for SMEs would be no more frequent than approximately once every three years

The amendments to the IFRS for SMEs from the initial comprehensive review are expected to be issued in the first half of 2015.

IFRS 14 *Regulatory Deferral Accounts- Rate-regulated Activities* (Agenda Paper 9)

The IASB met on 18 February 2015 to discuss a summary of the comments received in response to the Discussion Paper Reporting the Financial Effects of Rate Regulation (the Discussion Paper).

The IASB reviewed the main messages received through outreach and comment letters, namely:

- Most respondents agree that the Discussion Paper provides a good description of the distinguishing features of rate regulation. Many suggest that the scope of any future guidance should focus more on the rights and obligations and how they relate to the rate-setting mechanism, with other features being considered more as supporting features.
- Many respondents suggest that the combination of rights and obligations created by defined rate regulation may not always be faithfully represented in IFRS financial statements and that the project should lead to the recognition of at least some regulatory deferral account balances in IFRS financial statements.
- Many respondents agree that IFRS 14 Regulatory Deferral Accounts is a good starting point for disclosure requirements.
- Of the four approaches outlined in the Discussion Paper, there was the most support for the recognition of the financial effects of rate regulation through specific IFRS requirements. No decisions were made at this meeting. However, the IASB highlighted the following issues for the staff to explore further:
- how to define the scope for the proposed Standard, based on the description of rate regulation;
- the meaning and use of 'the customer base', in particular within the context of the three-way relationship between a rate-regulated entity, the rate regulator and the end customer;
- the consistency of the approach taken in this

project compared with approaches used in other Standards and ongoing projects in accounting for the net effect of the rights and obligations;
- the interaction of this project with the Conceptual Framework project and its definitions of assets and liabilities; and
- how the principles of IFRS 15, in particular relating to the identification of performance obligations, could be adapted to rate-regulated activities.

The Rate-regulated Activities Consultative Group will meet in early March. The staff will consider the matters discussed at that meeting before developing recommendations for the IASB to consider about specific topics.

The IASB met on 18 February 2015 to discuss the factors that the IASB would need to consider in deciding whether, and how, to address the issues relating to IFRS 15 Revenue from Contracts with Customers emerging from the discussions of the IASB|FASB joint Transition Resource Group for Revenue Recognition (TRG).

IFRS 15 *Revenue from Contracts with Customers*—Issues emerging from Transition Resource Group (TRG) discussions (Agenda Paper 7)

The IASB was informed that the TRG's discussion on the majority of the 32 submissions considered to date indicate that stakeholders should be able to understand and apply the Standard. However, some of those topics have been referred to the IASB and FASB for further consideration. Two of those issues relate to licensing and identifying performance obligations, which were discussed jointly with the FASB at this meeting.

No decisions were reached at this meeting. However, individual IASB members expressed views about their considerations in addressing the specific issues emerging from the TRG discussion, in particular with respect to balancing the need to provide any clarifications judged necessary for stakeholders in a way that minimises disruption to the implementation process and the desire to maintain convergence between ***IFRS 15 and Topic 606 Revenue from Contracts with Customers.***

The IASB and the FASB (the Boards) met to discuss issues emerging from the discussions of TRG. The IASB and the FASB each decided to propose some improvements in order to clarify the guidance in ***IFRS 15 and Topic 606*** (collectively, the new revenue Standard) with respect to the following topics:

a. Licences of intellectual property
b. Identifying performance obligations

Licences of intellectual property

Determining the nature of the entity's promise in granting a licence

The Boards decided to improve the operability and understandability of the Application Guidance in the new revenue Standard. To do so, the Boards propose clarifying that the entity's promise to the customer in granting a licence is to provide a right to access the entity's intellectual property (which is satisfied over time) when the contract requires or the customer reasonably expects the entity to undertake activities (that do not transfer a good or service to the customer) that significantly affect the utility of the intellectual property to which the customer has rights. The utility of the intellectual property to which the customer has rights is significantly affected when either:

- the expected activities of the entity are expected to change the form (for example, the design) or the functionality (for example, the ability to perform a function or task) of the intellectual property to which the customer has rights; or
- the value of the intellectual property to the customer is substantially derived from, or dependent upon, the expected activities of the entity. For example, the value of a brand or logo is typically derived from, and dependent upon, the entity's ongoing activities that support or maintain the intellectual property.

In addition, the Boards clarified that when intellectual property has significant standalone functionality (that is, the ability to process a transaction, perform a function or task, or be played or aired), such as software or media content, a substantial portion of its utility is derived from that functionality and is unaffected by activities of the entity that do not change that functionality (such as promotional activities).

The FASB further decided to clarify in the guidance that when an entity grants a licence to symbolic intellectual property (that is, intellectual property that does not have significant standalone functionality, such as brands, team or trade names, or logos), it is presumed that the entity's promise to the customer in granting a licence includes undertaking activities that significantly affect the utility of the intellectual property to which the customer has rights.

Determining when an entity should assess the nature of a licence

The FASB decided to clarify in Topic 606 that, in some cases, an entity would need to determine the nature of a licence that is not a separate performance obligation in order to appropriately apply the general guidance on whether a performance obligation is satisfied over time or at a point in time and/or to determine the appropriate measure of progress for a combined performance obligation that includes a licence. Five FASB members agreed.

The IASB decided that a clarification to the application guidance in IFRS 15 with respect to this issue was not necessary because there is adequate guidance in IFRS 15 and the accompanying Basis for Conclusions. In reaching this conclusion the IASB noted the analysis in paragraphs 59–64 of Agenda Paper 7B. All IASB members agreed.

Sales-based or usage-based royalties

The Boards decided to clarify the scope and applicability of the Application Guidance on sales-based or usage-based royalties promised in exchange for a licence of intellectual property as follows:

- an entity should not split a single royalty into a portion subject to the sales-based or usage based royalties exception and a portion that is not subject to the royalties constraint (and, therefore, would be subject to the general guidance on variable consideration, including the constraint on variable consideration); and
- the sales-based or usage-based royalties exception should apply whenever the predominant item to which the royalty relates is a licence of intellectual property.

Contractual restrictions in licence arrangements

The FASB decided to clarify in Topic 606 that contractual restrictions of the nature described in paragraph 606-10-55-64 [B62 of IFRS 15] are attributes of the licence; and therefore, do not affect the identification of the promised goods or services in the contract. For example, an entity would not identify a different number of promised licences in a contract that grants a customer unlimited rights to use specified intellectual property for a defined period of time than it would in a contract that grants a licence that restricts how often the intellectual property may be used during the licence period.

The IASB decided that a clarification to the Application Guidance in IFRS 15 with respect to this issue was not necessary because there is adequate guidance in IFRS 15 and the accompanying Basis for Conclusions. In reaching this conclusion, the IASB noted the analysis in paragraphs 68–73 of Agenda Paper 7B.

Identifying performance obligations
The Boards decided to add some illustrative examples to the new revenue Standard to clarify how the Boards intend the guidance on identifying performance obligations to be applied. All FASB and IASB members agreed.

In addition, the FASB decided to incorporate further amendments in Topic 606 to address implementation issues about (1) identifying promised goods or services that would be subject to the separation guidance; (2) application of the distinct guidance; and (3) accounting for shipping and handling activities, as well as to make some technical corrections to Topic 606 in this area.

Promised goods or services
The FASB decided that an entity is not required to identify goods or services promised to the customer that are immaterial in the context of the contract. Optional goods or services should continue to be accounted for in accordance with paragraphs 606-10-55-41 through 55-45 (paragraphs B39–B43 of IFRS 15). An entity would not be required to accumulate goods or services assessed as immaterial to the contract and assess their significance at the financial statement level. Five FASB members agreed.

The IASB decided not to incorporate similar guidance into IFRS 15.

'Distinct within the context of the contract'
In addition to providing additional illustrative examples, the FASB decided to amend the guidance in Topic 606 about when an entity's promise to transfer a good or service is separately identifiable (that is, distinct within the context of the contract) by both:

- expanding upon the articulation of the separately identifiable principle in the Codification; and
- enacting revisions to the factors in paragraph 606-10-25-21 [29 of IFRS 15] to more closely align those factors to the re-articulated separately identifiable principle.

The IASB decided not to amend this guidance in paragraphs 27 and 29 of IFRS 15. However, in addition to including illustrative examples (as noted above), the IASB also noted that the discussion and the analysis of the issues relating to 'distinct within the context of the contract' in paragraphs 34–43 of Agenda Paper 7C could help educate and inform practice.

Shipping and handling activities
The FASB decided to clarify the guidance in Topic 606 as it applies to shipping and handling activities. The revised guidance would clarify that shipping and handling activities that occur before the customer obtains control of the related good are fulfilment activities. In addition, the FASB decided to permit an entity, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfilment activities. Five FASB members agreed.

Technical corrections
The FASB decided to make some technical corrections to the guidance on identifying performance obligations in Topic 606 and all FASB members agreed.

The FASB staff will begin drafting a proposed Update based on the tentative decisions reached.

The IASB decided that it would develop a single Exposure Draft of proposed clarifications to IFRS 15. This Exposure Draft will include the clarifications that the IASB tentatively decided to make at this meeting, together with any other clarifications that the IASB considers necessary in the light of the discussions at the TRG meetings in January 2015 and March 2015. The IASB expects to approve the clarifications to be included in the Exposure Draft at its meeting in June 2015.

IFRS 4 *Insurance Contracts*

The IASB met on 19 February 2015 to continue its discussions on insurance contracts at an education session. The IASB discussed its tentative decisions on the level of aggregation and considered the application of those decisions to contracts with and without participation features.

Phase II of the project, which is currently being undertaken, will result in a new Standard to replace the current IFRS 4. That Standard will eliminate inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. Phase II will also provide requirements for presentation and disclosures items to enhance comparability between entities.

IAS 1 ***Presentation of financial statements:*** Amendments to IAS 1—Disclosure Initiative—Principles of Disclosure (Agenda Paper 11)

The IASB met on 19 February to discuss how the Principles of Disclosure Discussion Paper (the DP) should address non-IFRS information.

The IASB indicated that IFRS should not prohibit the disclosure of alternative performance measures (APMs) in the notes to financial statements. However, views differed on whether disclosure of APMs on the face of the financial statements should be permitted. The IASB also asked the staff to refine the definition of APMs and to develop some qualitative constraints on the use of APMs in the financial statements, based on those described in paragraph 32 of Agenda Paper 11B, for inclusion in the DP.

The IASB also decided that the DP should include preliminary views that:

- IFRS should include additional guidance on the depiction of non-recurring, unusual or infrequently occurring items in the statement of comprehensive income, consistent with the discussion in paragraph 46 of this paper; and
- the presentation of EBIT and EBITDA in the statement of profit or loss complies with IFRS, provided that the statement is presented 'by nature' and such subtotals are in accordance with paragraphs 85–85B of IAS 1 Presentation of Financial Statements.

The IASB decided that the DP should include its preliminary views that:

- IFRS should not prohibit the placement of information that an entity has identified as non IFRS in its financial statements; and
- IFRS should provide guidance about the presentation of information identified as non-IFRS in an entity's financial statements in a new disclosure Standard. That guidance should reflect the discussion in paragraph 20 of this paper.

At its March meeting the IASB plans to discuss the following:

- further topics as part of its Principles of Disclosure project, including the role of the financial statements, excluding the notes; and
- as part of the Materiality project, the content of an Exposure Draft of a Practice Statement on materiality.

IFRS 9 ***Financial Instruments: Accounting for Dynamic Risk Management:*** a Portfolio Revaluation Approach to Macro Hedging (Agenda Paper 4)

The IASB discussed summaries of the comments received in response to the Discussion Paper Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging. No decisions were made by the IASB. The staff will present a comment letter analysis on the remaining sections of the Discussion Paper in March 2015.

Author: **Lotus Dzeke** ***CA(SA)***

3. PROJECTS UPDATE

Leases

The IASB met on 19 February 2015 to continue re-deliberating the proposals in the May 2013 Exposure Draft Leases (the 2013 ED), specifically discussing:

- transition;
- leases of small assets; and
- sub-leases discount rate (sweep issue).

Transition—Leases Previously Classified as Operating Leases

Lessees

The IASB tentatively decided to permit a lessee to choose either a fully retrospective approach or a modified retrospective approach on transition, to be applied consistently across its entire portfolio of former operating leases. Fourteen IASB members agreed.

With respect to the modified retrospective approach, the IASB tentatively decided that a lessee should:

a) not restate comparative information Consequently, the date of initial application is the first day of the annual reporting period in which a lessee first applies the requirements of the new Leases Standard;

b) be required, at the date of initial application of the new Leases Standard, to recognise the cumulative effect of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate);

c) be required to measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application;

d) choose, on a lease-by-lease basis, between two measurement approaches for the right of use (ROU) asset on transition, as follows:

    i. by measuring the ROU asset as if the new Leases Standard had always been applied, but using a discount rate based on the lessee's incremental borrowing rate at the date of initial application; or

    ii. by measuring the ROU asset at an amount equal to the lease liability, adjusted by the amount of any previously recognised prepaid or accrued lease payments;

e) be permitted to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

f) be permitted to adjust the ROU asset on transition by the amount of any previously recognised onerous lease provision, as an alternative to performing an impairment review;

g) be permitted to apply an explicit recognition and measurement exemption for leases for which the term ends within 12 months or less of the date of initial application. A lessee would instead:

    i. account for these leases in the same way as short-term leases; and

    ii. be required to include the cost associated with these leases within the disclosure of short-term lease expense in the annual reporting period of initial application;

h) not be required to include initial direct costs in the measurement of the ROU asset; and

i) be permitted to use hindsight in applying the new Leases Standard, for example, in determining the lease term if the contract contains options to extend or terminate the lease.

The IASB also discussed the disclosure requirements for lessees in the annual reporting period in which the Standard is first applied. The IASB plan to discuss this topic further as a sweep issue at a future IASB meeting.

Lessors

The IASB tentatively decided to require a lessor to continue to apply its existing accounting for any leases that are ongoing at the date of initial application, except for intermediate lessors in a sublease (see Agenda Paper 3C Transition—Subleases). All fourteen IASB members agreed.

First-time adopters

The IASB tentatively decided to permit a first-time adopter of IFRS to apply the same modified retrospective approach that would apply to entities applying the new Leases Standard for the first time.

However:

- for a first-time adopter, the date of initial application should be regarded as the date of transition to IFRSs in accordance with IFRS 1 First-Time Adoption of International Financial Reporting Standards; and
- a first time adopter should not be permitted to apply the explicit recognition and measurement exemption for leases for which the term ends within 12 months of the date of initial application.

Transition—Sale and Leaseback Transactions

The IASB tentatively decided that:

a) an entity should not reassess historic sale and leaseback transactions to determine whether a sale occurred in accordance with IFRS 15 Revenue from Contracts with Customers;

b) a seller-lessee should not perform any retrospective accounting specific to sale and leaseback transactions that were classified as finance leases under IAS 17 Leases. Instead, a seller-lessee should:
   - account for the sale and leaseback on transition in the same way as for any other finance lease that is ongoing at the date of initial application; and
   - continue amortising any gain on sale in accordance with IAS 17;

c) a seller-lessee should not perform any retrospective accounting specific to sale and leaseback transactions that were classified as operating leases under IAS 17. Instead, a seller-lessee should:
   - account for the leaseback on transition in the same way as for any other operating lease that is ongoing at the date of initial application; and
   - account for any deferred gains or losses that relate to off-market terms as an adjustment to the leaseback ROU asset.

The IASB also tentatively decided to require a seller-lessee to apply the sale and leaseback partial-gain recognition approach only to sale and leaseback transactions entered into after the date of initial application of the new Leases Standard. Thirteen IASB members agreed with this decision and one disagreed.

Transition—Subleases

The IASB tentatively decided:

- to require an intermediate lessor to reassess each ongoing operating sublease at the date of initial application to determine whether the new Leases Standard would classify it as an operating lease or a finance lease. The intermediate lessor would base this reassessment on the remaining contractual terms of the head lease and the sublease; and
- that, for subleases that were classified as operating leases under IAS 17 but finance leases under the new Leases Standard, an intermediate lessor is required to account for the sublease as a new finance lease entered into on the date of initial application.

Transition—Definition of a Lease

The IASB tentatively decided to permit an entity to grandfather the definition of a lease for all contracts that are ongoing at the date of initial application of the new Leases Standard. An entity that chooses to grandfather the definition of a lease should do so for all contracts that are ongoing at the date of initial application. The entity should disclose that fact.

Leases of Small Assets

The IASB tentatively decided:

- to reaffirm its tentative decision to permit a recognition and measurement exemption for leases of small assets. Eleven IASB members agreed and three disagreed;

- to specify that leased assets that are dependent on, or highly interrelated with, other leased assets do not qualify as small assets. Thirteen IASB members agreed and one disagreed; and
- to include in the Basis for Conclusions a discussion of the order of magnitude that the IASB had in mind when deliberating the exemption. Twelve IASB members agreed and two disagreed.

Subleases Discount Rate (Sweep Issue)

The IASB tentatively decided to permit an intermediate lessor to account for a sublease using the discount rate used for the head lease, if the sublease is classified as a finance lease and the rate implicit in the sublease cannot be readily determined. All fourteen IASB members agreed. The IASB expects to review the due process on the leases project, and discuss the effective date and any sweep issues that arise at a future IASB meeting.

Various— IFRS Implementation Issues—Due process documents (Agenda Paper 12)

At its meeting on 20 February 2015, the IASB reviewed the due process steps that had been taken to date in preparation for the publication of two forthcoming Exposure Drafts:

- Remeasurement at a plan amendment, curtailment and settlement/Availability of a refund of a surplus from a defined benefit plan (Proposed amendments to IAS 19 Employee Benefits and IFRIC 14 IAS19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction); and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28 (2015)), formerly Elimination of Gains or Losses arising from Transactions between an Entity and its Associate or Joint Venture.

All IASB members confirmed that they are satisfied that the IASB has complied with the necessary due process steps to date and therefore instructed the staff to begin the balloting process for both documents. One IASB member indicated that he would dissent from the Exposure Draft described in point two above. No IASB members indicated their intention to dissent from the publication of the Exposure Draft described in paragraph one above. The staff will start the balloting processes for the forthcoming Exposure Drafts.

IFRS 3 *Business Combinations- Post-implementation review of IFRS 3 Business Combinations (Agenda Paper 13)*

The IASB met on 20 February to discuss the follow-up work needed for the Post-implementation Review of IFRS 3 Business Combinations.

The IASB decided to add the following issues to its research agenda:

- how to improve the impairment test in IAS 36 Impairment of Assets;
- how to clarify the definition of a business;
- the subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach); and
- the identification and measurement of intangible assets such as customer relationships and brand names.

Author: **Lotus Dzeke** *CA(SA)*

4. THE INTEGRATED REPORTING FRAMEWORK - MUCH NEEDED GUIDANCE

Introduction

Entities that seek to comply with King III are committed to ensuring that they are responsible corporate citizens. They endeavour to produce reports that demonstrate that the entities care about addressing the social, environmental and economic issues – the triple context in which they in fact operate as an integral part of society. In the past, to produce sustainability and integrated reports, entities have used the Global Reporting Initiative (GRI) guidance to report on sustainability, and mainly chapter 9 of King III to compile an integrated report. As a result most entities would compile a number of reports into one book instead of producing one concise report. More guidance was therefore desperately needed to ensure consistency of integrated reporting and reports.

<IR> Framework

In December 2013 the International Integrated Reporting Council (IRC) issued the first framework "Integrated Reporting Framework" **<IR> Framework** that gives guidance on Integrated Reporting. The IRC's long term vision when issuing the <IR> Framework, is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting (<IR>) as the corporate reporting norm.

This framework defines integrated reporting as a ***"process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation"***. From what the Framework describes the Integrated report is therefore an outcome of a process of integrated thinking and not merely an output at the end of the year to comply with reporting requirements as has been the practice in complying with King III. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability. This would require an active and deliberate consideration by an organization of the relationships between its various operating and functional units, as well as the capital that the organization uses or affects. An integrated report is a concise communication by the organisation on how the strategy, governance, performance and prospects in the context of its external environment, lead to the creation of value over the short, medium and long term

What does an <IR> contain?

When an Integrated report is compiled as recommended by this framework, a more cohesive and efficient approach to corporate reporting will be promoted and there will be an improvement in the quality of information available to providers of financial capital. The framework contains the fundamental concepts that underpin and reinforce the requirements and guidance in the Framework. These fundamental concepts are

- the value creation for the organisation and for others
- the capitals
- the value creation process (business model)

The guiding principles contained in the framework underpin the preparation and presentation of an integrated report, informing the content of the report and how it is presented. These are:

- Strategic focus and future orientation: An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals
- Connectivity of information: An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time
- Stakeholder relationships: An integrated report

should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests

- Materiality: An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term
- Conciseness: An integrated report should be concise
- Reliability and completeness: An integrated report should include all material matters, both positive and negative, in a balanced way and without material error
- Consistency and comparability: The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other entities to the extent it is material to the organization's own ability to create value over time.

An integrated report per the Framework includes Content Elements which are in a form of questions to assist preparers to probe the information as to whether it is adequate for value creation purposes. These Content Elements are fundamentally linked to each other and are not mutually exclusive.

- Organizational overview and external environment: What does the organization do and what are the circumstances under which it operates?
- Governance: How does the organization's governance structure support its ability to create value in the short, medium and long term?
- Business model: What is the organization's business model?
- Risks and opportunities: What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?
- Strategy and resource allocation: Where does the organization want to go and how does it intend to get there?
- Performance: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- Outlook: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- Basis of presentation: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Conclusion

With the advent of the <IR> Framework it is anticipated that integrated reporting will become the corporate reporting norm. No longer will entities produce numerous, disconnected and static communications. By using this framework, not only will concise communication about the organisation's strategy, performance and prospect be produced in a form of a report but this communication will be delivered through the process of integrated thinking.

We would like to extend an invitation to our JSE listed clients to engage with us on integrated thinking and integrated reporting.

Author: **Fikile Zwane** *CA(SA)*