

IRC of South Africa Comment Submission - The CRISA Code for Responsible Investment in South Africa 2020 Revision Consultation Draft

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We appreciate the opportunity to comment on the CRISA Code for Responsible Investment in South Africa 2020 Revision Consultation Draft (Code) published by the CRISA Committee in November 2020.

The Integrated Reporting Committee (IRC) of South Africa is an association not for gain founded in 2010. Its objectives are to promote and develop integrated reporting and integrated thinking in South Africa considering the international harmonization of integrated reporting and the recommendations of the King Reports on Corporate Governance.

Please note that our comments largely relate to aspects of the Code pertaining to integrated reporting and integrated thinking.

Our comments, as approved by the Board of the IRC of South Africa, are as follows:

1. Objectives of the revised Code

a) Do the objectives adequately frame what the CRISA Code should aim to achieve?

The objectives adequately frame what the Code should aim to achieve. Our further comments are below:

- In the objective related to cultivating integrated thinking among governing bodies (line 88), we suggest that specific mention be made of the preparation of an integrated report, which is the natural consequence of the integrated thinking in an organisation.
- In the objective related to the pursuit of sustainable finance (line 94), we suggest that integrated thinking and the preparation of an integrated report by investee organisations should be recommended.
- Clarity may be needed on what is meant by the term “custodian of governance” (line 78) as a Code in itself cannot be a custodian.

b) Are there any objectives that should be removed or added?

Our comments are noted in Q1 a) above.

2. Application of the revised Code

a) Do you agree with the flexible and universal approach to application and adoption?

Yes, while there are multiple factors that differentiate investment industry constituents a flexible and principles-based approach does not compromise those variations and can allow all investment organisations to apply the Code while maintaining their philosophy or style.

b) Should the Code contain targeted recommendations for different investment categories or types of investment organisations, or should these be dealt with in separate guidance?

The Code states the principles as applicable to all, thereby allowing individual investment organisations to determine how best to apply them. To resolve any areas of uncertainty, supplementary practice notes, or other forms of guidance, can be issued to provide clarity.

c) Is the approach to application on a proportionate basis sufficiently clear?

The application of the proportionate basis is sufficiently clear, however, as per our comments in Q1 a), we would encourage that all investment organisations prepare an integrated report as a holistic reporting mechanism, a tool of transparency, and as a natural consequence of their integrated thinking.

Our recommendation for preparing an integrated report even where a proportionate basis is adopted follows the approach of the King IV Sector Supplements.

3. Foundational Framework

a) Is the process from applying principles and adopting practice recommendations to realise the benefits of the outcomes sufficiently clear?

The explanation is sufficiently clear, aided by the clear infographic (Figure 2).

b) Do you agree with the outcomes and how they are outlined?

We note the following:

- In Figure 2, under “Impact-“, the word “or” is used referring to society or the environment. As society and the environment are inherently connected it is suggested that these terms are always referred to together, rather than the single use of the term “society” or separation of the two terms with the use of the word “or”.
- Positive outcomes (outcomes are defined as the effects on the six capitals in the *International <IR> Framework*) should not be achieved at the expense of negative outcomes, as this cannot lead to sustainable development over the longer term.

c) If not, please provide suggestions on alternative outcomes.

There might be consideration of the benefits to an investment organisation and its stakeholders of transparent and integrated reporting.

d) Do you agree with the approach to define practice recommendations across implementation and reporting elements?

We agree with this approach, noting that it follows the King IV approach.

Practice recommendations should be sufficiently flexible to account for differences across organisations and also across other frameworks or requirements, for instance ratings agencies’ recommendations or tools such as MSCI/ISS etc which are applied in decision-making and have their own particular requirements.

4. Principle 1: Integrating sustainable finance - *Investment arrangements and activities reflect a systematic approach to integration of sustainable finance practices, including the identification and consideration of materially relevant ESG and broader sustainable development considerations.*

Do you have any comments on Principle 1 and the practice recommendations for implementation and reporting?

It is suggested that there is disclosure by an investment organisation of its process of determining “materially relevant” issues, as well as its definition thereof. The *International <IR> Framework* can offer useful guidance in this regard.

In paragraph 1.2 relating to the systematic integration of ESG and broader sustainable development considerations:

- 1.2.1 - In identifying considerations that are of material relevance, also consider including issues that could pose a reputational risk to the investment organisation and the material issues raised by the investment organisation’s stakeholders.
- 1.2.2 - It is suggested that the element of “over time” (short, medium and long term) be incorporated when referring to risks and opportunities, and also more broadly to the mention of value creation, preservation or erosion of the six capitals throughout the Code.

In paragraph 1.7, while the assessment of the quality of integrated reports and the extent of integrated thinking in investee organisations is a welcome recommended practice of Principle 2, we suggest that it is also included in paragraph 1.7 to encourage it as a standard sustainable development practice.

5. Principle 2: Diligent stewardship - *Investment arrangements and activities demonstrate the acceptance of ownership responsibilities (where applicable) and enable diligent discharge of stewardship duties through purposeful engagement and voting.*

Do you have any comments on Principle 2 and the practice recommendations for implementation and reporting?

In paragraph 2.2.1, the following changes are suggested:

- Include reference to “completeness” in line 198
- Specifically refer to the “integrated report” in line 199
- Replace “destroyed” with “eroded” and add in “over time” in line 200 (the term “erosion” is used in the revised *International <IR> Framework*)
- Insert “in their integrated thinking” after “six capitals” in line 200.

In paragraph 2.7, it is suggested that there is also disclosure of the engagements with investee organisations relating to the quality and completeness of reporting, including the integrated report.

As an overall comment, we suggest more consistent use of the term “six capitals” in the principles and recommended practices of the Code, given that the term is used in King IV and the *International <IR> Framework* and is the basis of integrated thinking referred to throughout the Code.

6. Principle 3: Capacity building and collaboration - *A collaborative approach is taken where appropriate to promote acceptance and implementation of the principles of CRISA and other relevant codes and standards, to support the building of capacity throughout the investment industry and enhance sound governance practices.*

Do you have any comments on Principle 3 and the practice recommendations for implementation and reporting?

In this regard, we draw your attention to the ongoing work of the IRC of South Africa in promoting and developing integrated reporting and integrated thinking. We do this through our activities, which include the development and release of technical Information Papers and FAQs that are aimed at continuous improvement in the quality of integrated reports in South Africa.

Further, as a member of the International Integrated Reporting Council (IIRC), we serve to harmonise international developments in integrated reporting with local requirements and importantly, share South Africa's expertise in integrated reporting with the IIRC. The latter has been particularly indicated in our participation in the revision of the *International <IR> Framework* (the revised *International <IR> Framework (2021)* released in January 2021).

7. Principle 4: Governance - *Sound governance structures and processes are in place to enable oversight of and accountability for investment arrangements and activities towards diligent stewardship and responsible investment, including proactively managing conflicts of interest.*

Do you have any comments on Principle 4 and the practice recommendations for implementation and reporting?

In paragraph 4.5, we suggest specifically including reference to the preparation of an integrated report using the best practice guidance of the *International <IR> Framework*. The integrated report is widely considered to be the 'voice' of the governing body of an organisation. The integrated report is a natural consequence of the integrated thinking in an investment organisation, and ties in with the encouragement for integrated thinking referred to in the objectives of CRISA Code.

Consider including the definition of a governing body in the body of paragraph 4.1 for enhanced readability.

8. Principle 5: Transparency - *Meaningful disclosure is made at set time intervals in relation to the investment arrangements and activities across asset classes that support the integration of sustainable finance practices, discharging of stewardship duties and collaborative initiatives.*

Do you have any comments on Principle 5 and the practice recommendations for implementation and reporting?

In paragraph 5.5, we welcome the recommendation for investment organisations to "pursue integrated reporting". We suggest, however, that there is specific mention of the preparation of an integrated report using the best practice guidance of the *International <IR> Framework*. We similarly encourage the pursuit of integrated thinking by investment organisations.

Similarly, in paragraph 5.8, we suggest that there is specific mention of the preparation of an integrated report. Further, information should be given as to where the integrated report can be found (such as the investment organisation's website).

9. Glossary

a) Do you agree with the definitions provided? If not, please provide alternative suggestions in line with globally accepted definitions.

Give the full definition of “Integrated Thinking” as it appears in the glossary of the *International <IR> Framework*. That is, add in the second sentence: “Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.” The crux of integrated thinking, is the consideration and management of an organisation’s use of and effects on the six capitals over the short, medium and long term.

In the “Six capitals” definition, we suggest that expansion is needed for clarity and understanding. State the definition of each capital as given in the *International <IR> Framework*, with a hyperlink to the *International <IR> Framework* for more information (www.integratedreportingsa.org).

b) Are there any additional terms that should be included in the glossary? Please provide suggestions for definitions in line with globally accepted definitions.

It is suggested that the definition of an “integrated report” be included in the Code glossary. As per the *International <IR> Framework*, this is: “A concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.”

A definition of “material/ materially relevant” would be a very useful inclusion in the glossary given its frequent mention in the Code.

10. General comments

Please provide any other comments that may be relevant for consideration in the review.

- Consider offering guidance as to where the statement of adoption and related aspects should be disclosed for ease of reference by users.
- Noting that the Code is voluntary for investment organisations, it is hoped that the disclosure of the statement of adoption of the Code and how it is applied by an investment organisation works to achieve greater accountability for the commitment to sustainable development.
- Given the nature of the Code and its alignment with King IV, it is suggested that an investment organisation’s investment policy specifically include the review of investee organisations’ integrated reports. A quality integrated report offers holistic information of an organisation’s process through which value is created, preserved or eroded over time and can provide evidence of its sustainable thinking.

South Africa is acknowledged as a global leader in integrated reporting with our listed organisations having prepared integrated reports since the launch of King III (2009). There is no doubt that the preparation of an integrated report greatly assists in embedding integrated thinking in an organisation. In this way, even more organisations will be encouraged to adopt integrated reporting and integrated thinking which will assist in achieving the objectives of the Code.

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