

## IIRC Working Group Meeting of 12/13 February 2013

### The Framework: Summary of Discussion

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The following is a summary of discussion at the IIRC Working Group meeting held in Paris on 12/13 February 2013 on the Consultation Draft of the International Integrated Reporting (<IR>) Framework.

#### The Framework

References to specific sections of the Framework ('FW') are to the [draft of the Framework provided ahead of the meeting](#).

#### Key points of information/discussion

The following points were raised by meeting participants during the course of discussion, to inform the final editing process to be undertaken by the Secretariat in conjunction with the TTF:

##### *General*

- The current draft needs a professional edit to reflect a consistent tone throughout.
- The Framework does a lot to address <IR> concepts, but has little guidance for the preparation of integrated reports.
- The Framework or accompanying communications could describe how <IR> is different from current reporting and how it would improve the existing model.
- Discussion regarding the process followed to date is not germane to the Framework and could be better served by inclusion in a basis of conclusion section than by inclusion in the Framework itself.
- Concern was expressed about how to ensure that those claiming to have prepared an integrated report are using the Framework and how the credibility of self-declared integrated reports can be ensured. Does the Framework support benchmarking?
- From a procedural point of view, can elements of the Framework included in the Consultation Draft be dropped in the final version of the Framework issued in December 2013, such that it is more concise/precise?
- The Framework could increase its coverage of the process to develop an integrated report (ref. FW 5). Better guidance would offer increased chances of its successful take-up.
- In FW 1.3, should the focus on integrated thinking be listed as the primary aim of <IR>, which other aims support?
- It could be clearly stated that the Consultation Draft serves as a principles-based Framework that is different in nature and purpose to a standards document.
- Consideration could be given to use of a cover letter/foreword introducing the Consultation Draft, laying out what the Framework is designed to achieve, what process has been followed to date to produce it and appropriate caveats (which can be removed from the main body of the Framework as a result).

##### *Requirements*

- The "black-letter text" highlights the basic requirements (the "must-dos") of an integrated report and will inevitably form a baseline.

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- Should the tone of what constitutes an integrated report remain “directive”, setting the bar high, which represents a clear statement of purpose but might discourage some reporters, or should it allow for flexibility in terms of “comply or explain”? However, a “comply or explain” approach could undermine experimentation.
- Does the black-lettered text provide the total picture of what is necessary to prepare an integrated report?
- Should the black-letter text be run through Pilot Programme companies?
- Consider producing an appendix incorporating the black-letter text or including it in an Executive Summary, reviewing the list for consistency and completeness, such that it can stand on its own.

#### *Intended report users*

- It is accepted that providers of financial capital are the primary audience for <IR>, but they are not the sole audience; accordingly, excluding other users by use of restrictive terminology in the Framework could be avoided.
- Language in the draft Framework (FW 1.4) suggesting that investors are aligned to wider societal/public interest may be seen to lack credibility. The Framework could state that it is hoped that <IR> will help align investors’ interests with the public interest over time.
- In addition to identifying primary users (i.e. providers of financial capital), it would also be helpful to identify secondary users.
- The Framework could highlight the fact that an exclusively short-term view is not in investors’ best interests, but that a balance between long-term and short-term value creation is required.

#### *Outcomes*

- It was agreed that the [Outcomes diagram distributed at the meeting](#) should replace figure 2 in FW 2.4 after some additional changes:
  - “Operational context” could reflect external factors.
  - “Value-adding activities” could be replaced with “business activities” as a neutral term for activities that can affect value, which recognizes that business activities can create/add value, but also destroy/diminish value.
  - Should a distinction be drawn between outcomes and impacts, whereby outcomes are consequences of impacts, not the impacts themselves (i.e. an output generates an impact, which in turn leads to an outcome)?
- Companies could be more open on impacts, both positive and negative, including negative impacts on others.
- Should the Framework focus more on measurement and comparability? This assists investors and others, but is not part of the IIRC’s mission. Other frameworks and standards exist to support performance measurement in relation to the various capitals and <IR> should defer to them.
- Practical questions exist about how to measure outcomes (i.e. an increase or decrease in one or more of the capitals), which is difficult to do, whereas outputs

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are often (though by no means always) less so and are sometimes seen as a proxy for outcomes.

- Outcomes are good as a concept (i.e. in terms of reporting on the most material internal/external consequences for the capitals).
- Companies could provide commentary on how they achieve and ensure the sustainability of their business model going forward.

#### *The capitals*

- There is no need to change the descriptions of each of the capitals as currently contained in the Framework, not least bearing in mind that the Framework does not require reporters to reference a standard categorisation.
- It is worth considering placing earlier in the Framework the fact that the Framework is not prescriptive on use of the classifications of the capitals it provides.
- The former definition of "capitals" in the Glossary is preferred.
- Review the wording of FW 2.18 in conjunction with FW 2.20 to ensure the spirit of reporting on the capitals is not lost by the lack of any requirement to do so according to the Framework's categorisation.

#### *Value creation*

- It is important to stress that the purpose of <IR> is not to measure value, but to provide information that allows others to do so.
- It is also important to remember that not everything a company does creates or adds value. It can also destroy value and the Framework could also reference value destruction as a potential outcome of business activities, in addition to value creation, allowing for the fact that most Boards are likely to be reluctant to describe how they destroy value.

#### *Materiality*

- Is there a need for so much black-letter text on materiality, parts of which seem unduly prescriptive?
- Materiality could apply a lens to look at which capitals are relevant to future growth, rather than covering externalities of activities (e.g., in the case of training employees, there is no need to explain the societal outcomes).
- Materiality is informed by the timescale that the primary intended audience is interested in (e.g., in the sense that too much focus on the short-term can lead to long-term damage, as issues not addressed properly can compound and become much bigger). FW 3.23 could reference this (e.g. "... capitals it uses or affects in the short, medium and long term.")
- Different reporting frameworks apply different definitions of materiality.
- FW figure 4 repeats what is already described in narrative and could be seen to be superfluous. FW figure 5 is of little relevance and could be removed to an appendix.

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- Clarification is needed regarding the point that directors should determine materiality, based on what they assess as material from the perspective of intended users.

#### *Content elements*

- The ordering of the content elements could provide a more coherent flow. Possibilities include:
  - Strategy appearing further up the list (i.e., because the business model represents the implementation of strategy);
  - Putting them in alphabetical order; or
  - Putting them in the order they are discussed in FW 2.5-2.11.
- Management reward could feature more prominently in the Framework.
- Companies could be described as being better at articulating the nature of risks than how they manage them and to what effect (i.e. a “boiler-plate” approach). It is not enough that companies itemize their key risks. They could also report on what is being done to mitigate them. More focus might be needed in the Framework on the need to report on policies and processes to manage such risks.

#### *External references*

- External references are helpful, because they add to the body of guidance available and thereby promote further clarity.
- External references could not be included in the Framework itself, but incorporated in an appendix/other form of supporting document. This would be a “living” document and allow for update as required, without having to follow whatever due process is required for revisions to the Framework.

#### *Other additions/changes references*

- It could be said that it is not so important that an integrated report addresses what the reporting organization’s governance structure is/looks like (which can, e.g., be covered by a diagram/other explanation on its website), but how effective it is.
- The table highlighting links between capitals and stakeholders (FW Appendix A) is helpful to promote understanding of connectivity, but might need more work to make it succinct and effective. It could in any event not form part of the Framework itself, but be made available as a supporting document.

#### *Consultation questions*

- Fewer and more targeted questions could be included in the Discussion Paper than were included in the draft provided ahead of the meeting.
- Consultation questions could focus on difficult/challenging issues (“burning issues”) that have not been fully resolved and continue to trouble the Secretariat and TTF.

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- The survey/rating approach, if used, might be limited, although it does facilitate ready analysis and overview of feedback and allow for production of useful statistics. However, it might not be seen as a substitute for substantive comments.
- Where rating questions are used, they could be at the end of the section or even the entire document. If they are at the beginning, it may deter people from answering questions that follow.
- Professional input on the survey should be considered.
- Open questions are preferable to closed questions.
- Use of the word "appropriate" in the consultation questions should perhaps be avoided.
- Consultation questions should perhaps not be about whether the IIRC has done a good job, but whether the draft Framework addresses respondents' requirements and what it means for them.
- The consultation process could be used to test presumptions behind the draft Framework, such as: (a) what is obvious and therefore does not need re-stating, but can be taken out; and (b) what is missing and what gaps need to be filled?
- Space could be left for respondents to provide comments, but care should be taken not to orientate questions towards areas that have already been resolved and are "not negotiable".
- The ability to provide feedback online would be helpful.
- Respondents might be given flexibility to answer some or all of the consultation questions.
- Different questions might be targeted at different audiences (e.g., some directed to report preparers and others to investors).

#### *Conclusion*

- Changes to the draft Framework discussed/proposed at this meeting represent potential enhancements, but the document does not contain fundamental flaws. The basic concepts it contains are sound.
- Huge progress has been made since the initiative to develop the Framework started. It is important not to allow "the perfect to become the enemy of the good".
- The consultation process provides a perfect opportunity to identify remaining gaps and key issues to address.
- The Working Group is invited at this stage to make a recommendation to the Council on the release of a Consultation Draft, not on the final Framework. The consultation process will inevitably identify queries and concerns that will be addressed in the process to develop the Framework Version 1.0.
- If there is a substantial re-write of the Framework following the consultation period, the option remains to submit it to re-exposure (i.e. a further round of public consultation).
- The Council will effectively be conducting a "fatal flaw" review of the Consultation Draft.

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#### Decisions/recommendations

- WG members voted (all in favour, bar one abstention) to recommend the Consultation Draft to the Council, incorporating revisions to be made by the Secretariat and TTF further to discussion at this meeting.

The abstention was not based on a substantive objection to the content of the draft Framework, but a concern that the process to review changes to the Framework prior to its approval by the Council and subsequent release was not clear enough.

- Ian Ball, as WG Chairman, is to notify the Council of: (a) the extent to which any WG member believes that the revised draft submitted to the Council is substantively defective in any way by reference to WG deliberations; and (b) the reasons why.