

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:

Email:

Stakeholder group:

If replying on behalf of an Organization please complete the following:

Organization name:

Industry sector:

Geographical region:

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

This, my personal response, is, in most respects the same as the draft response which the Hong Kong Institute of CPA's working group (of which I am part) has developed.

Key points:

Q9: More guidance is needed on how to report per <IR> objectives without losing competitive advantage.

Q11: I strongly support the primary intended users of <IR> being providers of financial capital. This focus is essential to producing concise, readable reports. The needs of other important stakeholders should be met separately by Sustainability Reports following GRI.

Q12: If an <IR> is to be a 'concise communication of value over time' its framework must provide guidance on what is concise.

Q13: The IIRC should push for other bodies to improve on assurance standards and look at how barriers to assurance, such as civil liability of assurers, can be overcome in the

public interest.

Q22: The Framework provides a good statement of what is required but will only be effective if:

- a) <IR> reports follow strong standards for reporting data - this makes the link to International Financial Reporting Standards (or Local GAAP) and GRI key;
- b) Stock Exchanges support <IR> as being the prime communication to shareholders.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

No. It should, however, be stated that a report will not be 'In Accordance with <IR>' if local regulations lead to it excluding significant issues. For example if the reporting organisation faces Human Rights issues but is unable to report on them.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

Yes BUT the Framework should specifically encourage reporters to use International Financial Reporting Standards and GRI's Sustainability Standard Disclosures while recognising that local GAAP overrules International Financial Reporting Standards in some countries. Reasons:

- 1) Following, as far as possible, a single set of reporting standards both aides comparability of reports and training/competence of staff.
- 2) Referencing IFRS and GRI is inline with the commitment which IIRC made in its MOUs with IFRS Foundation and GRI to recognise their standard setting role and develop <IR> to be comparable with it.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

See answer to Q2.

Other

4. Please provide any other comments you have about Chapter 1.

See also our answer to Q12 regarding the importance of <IR>s being concise.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

YES BUT more guidance is required on how an organisation should report on capitals which it impacts but does not own. In particular Natural Capital, Human Capital and Social & Relationship Capital.

There is a substantial risk that lack of clarity on how to report these items will lead to the whole report becoming vague and confusing. While this is a move away from 'integration' it may be best to clearly separate discussion of capitals which are not owned so to maintain rigour on those which are owned.

6. Please provide any other comments you have about Section 2B?

More explicit guidance should be included on requirement to explain where reporting boundaries are different for different capitals. (For example, financial reporting boundaries are often different to sustainability reporting boundaries)

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

Yes.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

Yes.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

One of the biggest obstacles to companies adopting <IR> is concern that they will be giving away competitive advantage. Guidance is needed on how to report per <IR> objectives without losing competitive advantage.

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

None.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

Yes. I see this as essential to producing concise, readable reports. The needs of other important stakeholders should be met separately by Sustainability Reports following GRI.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

The terms 'Concise' and 'Senior Management' should be defined in the Glossary in a manner which enables assurance.

A report should not qualify as being in accordance with the <IR> framework if it is not concise. To aid judgment of this point the IIRC should identify reports on its database which it considers to be concise. It should then require, as a documented internal process, that preparers of <IR>s compare their report length with those of 'concise' reports of peer group companies on this database. Should their report be significantly longer than the peer group ones they should rationalise why they still consider it to meet the <IR> concise requirement.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

The reliability of an <IR> should firstly be demonstrated by a declaration to this effect on a report's '<IR> Home Page' (see response to Q21) by the Governance body responsible it.

Secondly IIRC should provide a 'practice-aid' checklist to assist this declaration. I am emailing a draft checklist based on the items in bold in the consultation draft to Michael

Nugent and Kylie Dumble. It might be made 'best practice' for reporters to put a completed version on their website and link from their '<IR> Home' page to it.

Finally external assurance is key to reliable reports. I feel that some areas, such as anti-corruption are still not assurable. The IIRC should push for other bodies to improve on assurance standards and look at how barriers to assurance, such as civil liability, can be overcome in the public interest.

14. Please provide any other comments you have about Section 3E.

None.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

None.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

I welcome the approach of providing questions which needs to be satisfied to confirm a report meets the <IR> requirement.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

Yes. It is most important that those charged with governance should be responsible for determining the matters which are material to the financial capital providers of the company and ensuring that these are appropriately reported in the Integrated Report. Delegating this authority to a lower level of management is not appropriate. Acknowledging this responsibility publicly will result in companies developing internal processes and approvals which should improve the quality of reporting. The wording of the Framework should therefore be changed to make the statements in the bullet points for 5.18 mandatory rather than optional.

That said, I also recognise that this issue could become a barrier to the adoption of <IR>, particularly while custom and practice over civil liability for judgmental and forward looking statements is established. I would therefore understand if the initial requirement was less onerous.

18. Please provide any other comments you have about Involvement of those charged with governance (Section 5D).

None.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

Taking this question in two parts:

(1) Whether the report is 'In Accordance With the <IR> Framework'? Response:

- The Framework should cover what the Governance body responsible for the report must do in order for it to make a statement that: 'The report is In Accordance With the <IR> Framework'.
- The External Assurance report, if there is one, should focus on assuring this statement by the Governance body. This assurance should be done within the limits per (2) below. It will require the development of a separate standard on how to provide such assurance. To provide credibility this standard should be the work of a separate organisation rather than being part of the <IR> Framework. – See our answer to Q23.

(2) Which aspects of an Integrated Reports should be Externally Assured? Specifically which aspects of:

A. Accuracy (within materiality limits) of factual information. "Data Assurance"

B. The quality of the processes followed in providing subjective and forward looking information.

C. Subjective and forward looking statements.

I consider

- Data Assurance (item A) should be done in accordance with reporting criteria which are either included in the report, or on the company website. International Auditing Standards provide sufficient guidance for this part of the assurance work. Assurance over every data point would not be cost beneficial to Financial Capital Providers. Rather, the Governance body responsible for the report should sign-off on which areas of the report require External Assurance for the benefit of Financial Capital Providers. This should be part of its determination of which matters require reporting.
- It is not in the best interests of Financial Capital Providers to get external assurance of subjective and forward looking statements (item C). Rather External Assurance should cover the quality of the process the company followed when developing and making these statements (item B).

The report, or a linked document on the web, must provide clarity as to the extent of External Assurance. If our recommendation in answer to Q21 is followed such clarity should be provided on the <IR> Home page of a report.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

No further comment.

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

1) For a report to be in accordance with <IR> it should have an '<IR> Home Page' which enables Readers of to (a) quickly determine whether a report follows the <IR> framework; (b) locate the reports coverage of each <IR> Content Element and (c) find out the extent of assurance and the firm providing the assurance. This '<IR> Home page' should include the declaration from the governance body per 5.18. The obligation to provide such a 'Home page' will reduce the risk of companies incorrectly declaring a report to be in accordance with <IR>.

2) To help reporters with the sequence of work, the <IR> Framework should provide a Flow Diagram showing the steps and decision making in producing an <IR>.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

The Framework provides a good statement of what is required but will only be effective if:

- a) <IR> reports follow strong standards for reporting data - this makes the link to International Financial Reporting Standards (or Local GAAP) and GRI key;
- b) Stock Exchanges support <IR> as being the prime communication to shareholders.

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

1) Materiality and conciseness. - The current guidance paper provides inadequate guidance on conciseness.

2) How an <IR> should use International Financial Reporting Standards and the GRI G4 framework.

3) An MOU with each stock exchange recognising an <IR> as the preferred prime communication to financial investors. These MOUs should specify how an <IR> can refer to other documents covering delated regulatory reporting rather than including such elements.

4) A Standard on how an <IR> should be assured should be developed by an

organisation which is independent of IIRC.

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.

The <IR> Framework document should have a short, compelling case for using <IR> as its first page. This will be helpful for people considering <IR> for the first time.

The <IR> Framework must provide guidance and a clear roadmap on how a first-time reporter can proceed. Further it should have an annex providing guidance to companies which consider they are not ready to produce an <IR> on how to develop a sound basis for <IR> reporting in future years. Many companies in Hong Kong are likely to be in this position.

The Framework should provide guidance on how companies which produce annual <IR>s should handle half yearly and quarterly reporting.

Practice Aid checklist: Requirements for a report to be in accordance with <IR>

This is a draft for the checklist which a report preparer should complete as part of 'self declaring' that their report is in accordance with the <IR> Framework.

Requirements per the Consultation Draft	Response
Ref	<IR> DEFINITION
1.3	<i>Does your report provide concise communication about how your organization's strategy, governance, performance and prospects, in the context of its external environment, leads to the creation of value over the short, medium and long term?</i>
1.6	<i>Is your report prepared primarily for providers of financial capital supporting their financial capital allocation assessments?</i>
	APPLICATION OF THE FRAMEWORK
1.11	<i>Does your report fail to provide all the information required by the <IR></i>
1.12	<i>framework due to unavailability of reliable data, specific legal prohibitions or competitive harm result in an inability to disclose information that is material or other reasons? It does then does it:</i>
	<ul style="list-style-type: none"> • <i>Indicate what information has been omitted?</i>
	<ul style="list-style-type: none"> • <i>Explain the reason why the information has been omitted?</i>
	<ul style="list-style-type: none"> • <i>In the case of the unavailability of data, identify the steps being taken to obtain the data and the expected time frame for doing so?</i>
	GUIDING PRINCIPLES
	Does your report:
3.2	A. Strategic focus and future orientation: <i>Provide insight into the organization's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals?</i>
3.7	B. Connectivity of information <i>Show, as a comprehensive value creation story, the combination, inter-relatedness and dependencies between the components that are material to the organization's ability to create value over time?</i>
3.13	C. Stakeholder responsiveness <i>Provide insight into the quality of the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their legitimate needs, interests and expectations?</i>
3.22	D. Materiality and conciseness <i>Provide concise information that is material to assessing the organization's ability to create value in the short, medium and long term?</i>
3.30	E. Reliability and completeness <i>Include all material matters, both positive and negative, in a balanced way and without material error?</i>
3.48	F. Consistency and comparability <i>Present information on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own value creation story?</i>

Requirements per the Consultation Draft (continued)

Response

CONTENT ELEMENTS		
4.4	<i>Does your report stand alone as a concise communication, linked to other reports and communications for those stakeholders who want ?</i>	
4.5	<i>Does your report disclose?:</i>	
	• <i>The organization’s materiality determination process?</i>	
	• <i>The governance body with oversight responsibilities for integrated reporting?</i>	
	• <i>The reporting boundary and how it has been determined?</i>	
	• <i>The nature and magnitude of the material trade-offs that influence value creation over time?</i>	
	• <i>The reason why the organization considers any of the capitals identified in this Framework to be immaterial given its particular circumstances, if that is the case?</i>	
	<i>Does your report answer the questions?:</i>	
4.6	A. Organizational overview and external environment <i>What does the organization do and what are the circumstances under which it operates?</i>	
4.10	B. Governance <i>How does the organization’s governance structure support its ability to create value in the short, medium and long term?</i>	
4.13	C. Opportunities and risks <i>What are the specific opportunities and risks that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?</i>	
4.18	D. Strategy and resource allocation <i>Where does the organization want to go and how does it intend to get there?</i>	
4.21	E. Business model <i>What is the organization’s business model and to what extent is it resilient?</i>	
4.27	F. Performance <i>To what extent has the organization achieved its strategic objectives and what are its outcomes in terms of effects on the capitals?</i>	
4.33	G. Future outlook <i>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?</i>	

Possible additional questions to confirm certain guiding principles are met

3.22	D. Materiality and conciseness: 1) <i>Does the report make clear what the most material issues for the company are?</i> 2) <i>Is the report clear and easy to read?</i> 3) <i>Is the report as a whole concise? One aid to judging this is to identify companies on the IIRC's database of 'Best Practice' reports which are peers for your company and then compare your report length with the length of these reports. If your report significantly exceeds that length of its peers then what is your justification for considering it meets the <IR> requirement to be concise?</i>	
3.30	E. Reliability and completeness: <i>Is the report assured? If it is assured what standard or protocol was used for the assurance?</i>	
3.48	F. Consistency and comparability: <i>Other than in circumstances where local GAAP overrides, does the report follow International Financial Reporting Standards and GRI framework standards? If not what standards does it follow?</i>	