



2 July 2013

Professor Mervyn King
Chairman
International Integrated Reporting Council

Electronic submission via: www.theiirc.org/consultationdraft2013

Dear Professor King

Consultation Draft of the International <IR> Framework

We congratulate the International Integrated Reporting Council (IIRC) on the publication of its *Consultation Draft of the International <IR> Framework* (draft Framework). We note the enormous effort that has gone into its development and to address the increasingly important, but under-developed and difficult, area of non-financial reporting. We thank you for the opportunity to submit our comments on the draft Framework.

The External Reporting Board (XRB) is an independent Crown Entity, responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand. Our Outcome Goal is “*Establishing accounting and assurance standards that engender confidence, assist international competitiveness, and enhance accountability*”. As a standard-setter, the XRB is keen to improve and further develop reporting by entities in a comprehensive manner. The XRB has an interest in international projects, including integrated reporting, that aim to improve reporting by entities generally.

Currently, corporate financial reporting is criticised as being too complex, while giving an incomplete portrayal of an entity’s performance and risks. IIRC has, through its draft Framework, an opportunity to add value to corporate reporting by enabling entities to portray a more complete picture of their performance and risks, through more concise and understandable information. To add value, integrated reporting must be seen to be an improvement to current corporate reporting.

In our view, the IIRC has created, in the draft Framework, a good foundation for further thinking and work on more comprehensive reporting by entities, while acknowledging that non-financial reporting is an evolving area. We support the core concepts and principles that underlie the draft Framework. We agree that financial reporting is a critical, but not sufficient, means for reporting an entity’s performance and/or accountability. In our view, appropriate non-financial information, in conjunction with financial information, is necessary for an entity to portray a complete picture of its performance and accountability. However, as reflected in our specific comments below and in our responses to the questions raised in the Consultation Paper, we think that the proposed Framework will need to be further developed if it is to be adopted, and easily, applied by entities.

Specific Comments

In general, we support many of the fundamental concepts, guiding principles and content elements set out in the draft Framework. However, from our perspective as a standard-setter, we would prefer that the proposed Framework provides greater clarity on the following:

- (a) the reporting boundary, form and content of an integrated report;
- (b) the frameworks, measures and indicators for the capitals; and
- (c) assurance.

We think that explicit guidance in the above areas will help to ensure that integrated reports provide new and relevant information and do not merely add to the financial reporting burden. Moreover, entities may be better encouraged to engage in integrated reporting if the form and content of an integrated report was clearer and its boundary better differentiated from a financial report and from an operating and financial review/management commentary (OFR). Ideally, to be useful and comparable, entities should use common frameworks, indicators and measures for reporting on the capitals. The integrated report (and its associated integrated process) will also need to be assured in some way to ensure that they are reliable and credible.

(a) The reporting boundary, form and content

The draft Framework attempts to draw a boundary between integrated reporting and financial reporting. In our view, the draft Framework also needs to provide clear guidance on the boundary between an integrated report and an OFR. In this context, we think that integrated reporting is more likely to be adopted if the draft Framework provides more specific guidance on the form and content of an integrated report. The draft Framework might be more user-friendly and easier to apply if it were to include the basic form and content of an integrated report, rather than requiring entities to formulate these from surveying existing best practice from, for example, the IIRC's Examples Database.

Aiming an integrated report primarily at financial capital providers sets the outer boundary for an integrated report. However, it potentially blurs the boundary between an integrated report, a financial report and an OFR. Moreover, we consider that the IIRC should also further clarify why the integrated report should be a standalone report rather than being part of an entity's general purpose financial report (GPFR) and how an integrated report is differentiated from an entity's GPFR.

Financial capital providers in a for-profit entity ought to be interested in the factors that influence cash flows. Aiming an integrated report at financial capital providers may widen the factors that an entity takes into account when determining its cash flows. However, it may not necessarily encourage an entity to include value creation (or destruction) factors or information that do not affect cash flows. Moreover, if value creation (or destruction) is assessed in terms of its impact on cash flows, it could be argued that it is more appropriate to include such information in the financial report and/or an OFR rather than in a separate integrated report.

Clarifying the information content between an integrated report, a financial report and an OFR is necessary given that information on two of the capitals (financial and manufactured) and some risk information are currently required to be disclosed in a financial report. Similarly, many of the proposed content elements in the draft Framework are also required or presented in an OFR. For example, the International Accounting Standards Board's (IASB) IFRS Practice Statement on *Management Commentary* includes, amongst other disclosures, the disclosure of forward-looking information, objectives and strategies, resources, risks and strategies and results and prospects. As an integrated report is intended to be a standalone report, this may result in the duplication of information¹ in the integrated report and/or the omission of information from the financial report and/or the OFR.

¹ We note that an entity is able under the draft Framework to provide links in its integrated report to other published information.

We recommend that the proposed Framework further clarifies the boundary, form and information content between an integrated report, a financial report and an OFR. We also recommend that the IIRC further clarifies why the integrated report should be a standalone report rather than being part of an entity's GPFR and how an integrated report is differentiated from an entity's GPFR.

In the medium to longer term, we recommend that the proposed Framework be extended for application by public sector and not-for-profit entities. We consider that non-financial reporting about an entity's performance is equally, if not more important, in the public sector and not-for-profit sector than in the private sector. We consider that application of the concepts and principles underlying the proposed Framework have the potential to add value to reporting entity performance in the public sector and not-for-profit sector.

(b) Specific measures and indicators

The draft Framework is principle-based and does not prescribe specific indicators or measurement methods for reporting material matters. Reliance is placed on management's judgement to determine the appropriate form, content, measures and indicators and on standards set by other standard-setters for the specific measurements and indicators. However, it is not clear to us what, if any, expectations the IIRC has of standard-setters (whether international or local) to assist in either prescribing or developing any form, content, additional indicators or measures.

We appreciate that the IIRC is attempting to allow for some flexibility in reporting at this early stage of development. However, there are currently many different frameworks, measures and indicators available for different aspects of the capitals. We are concerned that different indicators and measures may be used by entities for common matters, thereby compromising comparability and consistency of information between entities and within entities over time. Moreover, in our view, clarity and transparency may not be achieved if there are no specified form, content, measures and indicators for portraying and measuring common matters.

We encourage the IIRC to determine (and specify in the proposed Framework, where possible) the generally accepted frameworks, measures and indicators for the key, common matters required to be disclosed under each of the capitals. The results of the IIRC's Pilot Programme and its Examples Database may be useful sources for the IIRC to determine form and content and the reliability of the commonly used frameworks, measures and indicators. Specification in the draft Framework will ensure consistency of use and comparability of information and may prevent the ad hoc development of new measures and indicators. Where measures and indicators are not available, we recommend that the IIRC work with relevant standard-setters to develop measures that the IIRC considers to be appropriate. Having some specific and standardised measures and indicators will also assist assurance providers when assuring the information.

While we understand that the IIRC is keen for market forces to prompt entities to engage in integrated reporting, we consider that better quality and more comparable reporting will result if there were explicit guidance in the proposed Framework to steer entities in the right direction in drawing up an integrated report. It may be difficult to change practice once entities start using different frameworks, measures and indicators.

We recommend that the proposed Framework includes the generally accepted frameworks, measures and indicators (where available) for the key, common matters that are required to be reported under the capitals.

(c) *Assurance*

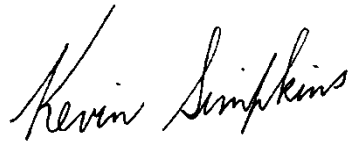
It is important for an integrated report to contain the relevant information content if it is to be useful. Assurance adds value to the integrated report and the integrated reporting process by enhancing a user's ability to rely on the information. Assurance is important because, as much of the content of an integrated report is determined by management, there is a risk that the information presented may not always be balanced. In addition, the process for drawing up the information, in the absence of prescribed frameworks, measures and indicators may also impact on the quality of information presented. As such, the integrated report and, more importantly, the underlying process for deriving the integrated report need to be assured in some way to ensure that they are reliable and credible.

We recommend that the proposed Framework provides more explicit guidance on the relevant level(s) of assurance for an integrated report and the integrated process for drawing up the information. Without any assurance, an integrated report is unlikely to have much credibility. We acknowledge that some of the content of an integrated report, the absence of pre-determined benchmarks for specific matters and the lack of auditor experience in assuring non-financial information may be challenging for some assurance providers.

Our responses to the specific questions raised in the Consultation Draft are set out in the attached Appendix.

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink that reads "Kevin Simpkins". The signature is written in a cursive, flowing style.

Kevin Simpkins
Chairman
External Reporting Board

Responses to Specific Questions in the Consultation Draft

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).

Question 1

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

In principle, we agree that 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. We support the disclosures that are required to be made (1) where non-disclosure is due to unavailability of reliable data, specific legal prohibitions and competitive harm reasons and (2) where certain capitals are not considered to be relevant to the entity.

However, an assertion of compliance with the proposed Framework does not necessarily guarantee the quality of the information provided. Notwithstanding an assertion of compliance, the subjective nature of the information and the absence of prescribed form, content, measures and indicators mean that the information is not likely to be comparable. Moreover, under the draft Framework, an entity is able to assert compliance when there is non-disclosure of information due to unavailability of reliable data and for competitive harm reasons. In our view, the statement of compliance is probably not critical at this stage of development of integrated reporting, particularly since there are no effective enforcement mechanisms due to its non-mandatory nature.

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 (paragraph 1.18-1.20).

Question 2

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

Question 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?

Question 2

Subject to our comments on the reporting boundary, we agree with how paragraph 1.18 characterises the interaction of an integrated report with other reports and communications. Notwithstanding the anticipation that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle, we hope that the ability of entity to include links in

an integrated report to other reports and communications will mean that there is no duplication of information or additional information overload.

As stated in our Specific Comments above, we consider that to be useful, the proposed Framework should include the appropriate generally accepted frameworks, form, content, measures and indicators for the key common activities, events or elements that are required to be disclosed under each of the capitals. We consider that these should be included in the proposed Framework to ensure that where possible, entities use consistent and comparable form, content, measures and indicators. Where an entity uses a measure or indicator that is not prescribed in the proposed Framework, it should explain why the alternative that it has used is considered to be more appropriate.

In addition, we recommend that the IIRC monitors the use of the indicators and measures by entities to ensure that they are used or implemented appropriately. We also encourage the IIRC to work with standard-setting organisations and/or participate in the development of indicators or measurement methods to ensure that appropriate and relevant indicators and measurement methods are set.

Question 3

We note the many frameworks and guidelines on environmental, social and governance disclosures that are currently available. Many of these are prescriptive and detailed. We encourage the IIRC to take this opportunity to streamline disclosures and include in the draft Framework the appropriate frameworks, measures and indicators that entities may use. We think that the results from IIRC's Pilot Programme and its Examples Database may be useful for this purpose.

Given that an integrated report incorporates a financial report, from a standard-setter's perspective, we consider that, as a minimum, reference will need to be made to pronouncements issued by the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) and how those standards interact with and/or support the information in an integrated report. In relation to assurance, reference should be made to pronouncements issued by the International Auditing and Assurance Board (IAASB).

Other

Question 4

Please provide any other comments you have about Chapter 1.

Question 4

The intended target audience of an integrated report is the same as that of a financial report – the financial capital providers. We consider that this may limit the information content and usefulness of integrated reporting and an integrated report. For capital allocation purposes, the primary focus of financial capital providers is on factors affecting profit and cash flows that can be generated by an entity: matters unrelated to these aspects of capital allocation may be considered to be irrelevant and may not be disclosed.

The focus on the application of the proposed Framework by private sector, for-profit companies may also limit its application by public sector and not-for-profit entities.

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).

Question 5

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

Question 6

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

Question 5

We support the six categories of capital set out in the draft Framework as benchmarks for an integrated report. We consider that it is useful to reflect an entity's performance and accountability from a multiple capitals' perspective.

However, we have concerns with the potential overlap in information on at least two of the capitals (financial and manufactured) that are already in financial statements. Notes to financial statements are likely to contain supplementary information about these capitals if these are material to the entity. Moreover, many of the content elements set out in the draft Framework are also prescribed or disclosed in an entity's OFR.

As stated in our Specific Comments, we recommend that the proposed Framework further clarifies the boundary (including the form and information content) between an integrated report, a financial report and an OFR.

Question 6

We have no other comments on Section 2B.

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).

Question 7

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

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).

Question 8

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

Question 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 (Section 4E).

Question 7

We agree with the definition of “business model”.

We consider that the organisation’s business model and its ability to create and sustain value in the short, medium and long term, is appropriate as central themes for the future direction of reporting.

Question 8

We agree with the definition of “outcomes”.

Section 2D provides commentary on value creation and section 4F provides commentary on performance. We think that in the absence of specified form, content, measures and indicators for the capitals, it may be difficult to (1) link value creation (or destruction) to performance, (2) assess an entity’s performance with regard to whether its outcomes have been achieved on value creation (or destruction) and (3) compare performance across entities.

In addition, we consider that reporting on outcomes may be more difficult than reporting on the capitals, particularly when linking outcomes to particular entities. The need to report on outcomes may add to the difficulty of applying the proposed Framework.

Question 9

We have no other comment on this section.

**Other
Question 10**

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

Question 10

We have no other comment on this chapter.

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 providers (paragraphs 1.6-1.8).

Question 11

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

Question 12

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

Question 11

We agree with the definition of materiality and with the materiality determination process if the focus is limited to financial capital providers.

Question 12

We have no other comments on these sections.

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).

Question 13

How should the reliability of an integrated report be demonstrated?

Question 14

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

Question 13

We agree that reliability of the integrated reporting process may be enhanced by mechanisms such as robust internal reporting systems and appropriate stakeholder engagement. We are concerned with the potential for confusion (and hence, the potential lack of consistency and comparability) if multiple means or mechanisms are used to “assure” different aspects or components of an integrated report and/or its process. Different mechanisms may create confusion as to which mechanism, and hence which aspect of the integrated report and/or process is more reliable than another. In our view, from a user perspective, independent, external assurance is still the best way to demonstrate reliability of the integrated reporting process and/or the integrated report.

As stated in our Specific Comments above, we recommend that the proposed Framework provides more explicit guidance on the relevant level of assurance for an integrated report and the integrated process for drawing up the information. Without any assurance, an integrated report is unlikely to have much credibility. We acknowledge that some of the content of an integrated report, the absence of pre-determined benchmarks for specific matters and the lack of experience in assuring non-financial information may be challenging for some assurance providers.

Question 14

We have no other comments on Section 3E.

Other

Question 15

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

Question 15

We have no other comments to make on Chapter 3.

Chapter 4: Content Elements

Question 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).

Question 16

We have no other comments on Section 4E.

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>.

Question 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?

Question 18

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

Question 17

We agree that there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report. The requirement to explicitly sign off and acknowledge responsibility for the integrated report imposes an additional discipline and will require those charged with governance to ensure that the integrated report is not false or misleading in a material manner.

However, such a requirement could have a negative impact by limiting the information that is disclosed in an integrated report, particularly forward-looking and strategic information, where the governing body may be concerned about potential liability in the event that the matters specified do not eventuate. It may result in general boilerplate information being disclosed, rather than entity-specific information. Notwithstanding this, we consider it useful to include a statement by those charged with governance acknowledging their responsibility for the integrated report.

Question 18

In relation to section 5C on disclosure of material matters, it will be useful to require entities to specify the framework, measure and/or indicator which have been used to for the quantitative and qualitative information that has been disclosed. This information may be helpful in determining whether those frameworks, measures and/or indicators are appropriate and have been consistently applied.

Credibility (Section 5E)

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

Question 19

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

Question 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.

Question 19

We consider that if assurance is to be obtained, it should cover the integrated report as a whole, rather than specific aspects of the report. If only specific aspects of the report are assured, it may call into question the credibility and reliability of those aspects that are not assured. Given the need for connectivity of information in an integrated report, it may also result in the credibility of the integrated report as a whole being questioned.

We also consider that it is important that assurance of some form (review or audit) be provided over the integrated reporting process as well, given its importance in determining the content of an integrated report.

Our main concern with assurance for integrated reporting is whether the content elements are capable of being assured and, if so, the form of assurance. In our view, it may be confusing for users if different aspects or components of the integrated report have different levels of assurance.

Question 20

We have no other comments on Section 5E.

Other**Question 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).

Question 21

In relation to the reporting boundary of integrated reporting, we recommend that the proposed Framework further clarifies the reporting boundary between the information to be disclosed in an integrated report, a financial report and an OFR. Moreover, we consider that the IIRC should also further clarify why the integrated report should be a standalone report rather being part of an entity's GPFR and how an integrated report is differentiated from an entity's GPFR.

We agree that the financial reporting boundary, used for financial reporting purposes (the financial reporting entity) is based essentially on control and significant influence (paragraph 5.25). In this respect, all relevant information as required by financial reporting standards that is related to the reporting entity should be disclosed in a financial report. In our view, the integrated report should contain information about opportunities, risks and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity. We think that it is confusing to require material opportunities, risks and outcomes attributable to or associated with entities (including those for related parties) that are included in the financial reporting entity to be reported in an entity's integrated report (paragraphs 5.28 and 5.30). Some

of this information is required by financial reporting standards. To require their disclosure in an integrated report may result in duplication and/or omission of information from the financial report.

Moreover, as stated in our Specific Comments above, it would also be useful for the draft Framework to clarify the boundary between an integrated report and an OFR. Many of the content elements are prescribed or disclosed in an entity's OFR. The intention that the integrated report be a standalone report may also result in the duplication of information if the boundary, form and information content between these reports are not clearly set out.

Overall view

Question 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?

Subject to our comments set out in the Specific Comments and in the responses to the questions above, we agree that the content of the Framework overall is appropriate, as a starting point, 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.

Development of <IR>

Question 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?

As stated in our Specific Comments above, we recommend that the proposed Framework provides greater clarity and guidance in the following areas:

- (a) the reporting boundary, form and content between an integrated report, a financial report and an OFR;
- (b) specific measures and indicators for the content of an integrated report; and
- (c) assurance.

Other

Question 24

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

We have no other comments on the draft Framework.