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.

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Stakeholder group:	Assurance provider

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

Organization name:	ERM CVS
Industry sector:	Not applicable
Geographical region:	Global

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.

Dear Sir/Madam

We have read the Consultation Draft with interest and provide a response on behalf of ERM Certification and Verification Services (ERM CVS). In addition to our responses to the questions we would like to highlight the following:

- The whole Framework revolves around the principle of 'value creation' and 'creating value' which in most places where these terms are used, is assumed to be only positive aspects. However, under 2.16 the document mentions that the term 'value creation', unless otherwise stated, includes instances when the overall stock of capitals is decreased (i.e. when value is diminished or destroyed). This is, in our view, extremely confusing to users of the Framework as anyone who misses this small section of text would not be aware of this definition, and it does not feature in the glossary. These terms and other related expressions such as ' ..material to the organization's own value creation story' appear to encourage reporting only on positive influences of the organization on the capitals. We recommend the IIRC address this problem, and suggest one or more of the following:

- Using a different term altogether.
- Deleting the terms 'value creation' or 'creating value' where these are not necessary to understanding.
- At a minimum, highlighting this double meaning at the start of the guidelines and in the Glossary.

- In our view, the restriction of the framework to a specific group of stakeholders (providers of financial capital) may conflict with the principle of connectivity with other communications, in particular sustainability reporting. In other words, if the IR reporting process is 'top down' the IR materiality process may inadvertently be used to determine materiality for communications with other user groups, that may have very different information needs. We recommend the IIRC to address this risk in any covering document and the section 'Interaction with other reports and communications', as well as under the principle 'materiality and conciseness' and in the guidance on determining materiality and reporting boundary.

- We suggest the issue of ownership of the capitals, now in 2.23, needs more prominence, as we assert that this is a fundamental principle which users need to be aware of when reading the whole of section 2B. This could be done by moving this paragraph to the description of the capitals, for example after current 2.13.

- While the Guiding Principle 'Reliability and completeness' refers to 'information' in a number of places it suggests that material information may be omitted because of the unavailability of reliable 'data'. This raises two questions - whether there is sufficient clarity that all information (not just data) is subject to this principle and, secondly, it tends to imply that nothing needs to be reported on a material issue if reliable data are not available. We suggest adjusting this so that reporting organizations are a) encouraged to report qualitative information on all material issues, irrespective of the availability of reliable data, and b) clearly extending the principle of reliability to all information, including qualitative narrative.

- The use of the term 'Reporting boundary' implies one boundary for all information in the report. Based on the principle of materiality the boundary may vary for each material issue identified - e.g. financial boundary for the financial accounts and certain direct environmental impacts while a discussion of human rights abuses in the supply chain would have a different boundary.

- The references to independent assurance (for example 5.20) do not, in our view, sufficiently address the following:

- How to deal with assurance on information in an IR which refers to underlying detailed data or information in

another communication

- That assurance on different topics and subject matters requires knowledge and understanding of that subject matter, and for some topics such as GHG emissions, a high level of technical expertise. The current wording tends to imply one assurance process for an integrated report. We suggest the final Framework should make clear that it is unlikely that one assurance provider or process can cover all aspects of an integrated report.

Yours sincerely,

Jennifer Iansen-Rogers

Head of Report Assurance Services ERM CVS

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.*

In general the principles seem to be complete and comprehensive. However we would like to highlight our initial comments on the use of the term 'value creation' which is used in a number of the requirements. This may mean that if a reporting organization or assurance provider uses only the ' requirements' as a basis for reporting or assurance, the negative aspects of damaging or destroying value may be missed.

Refer to chapter 3 for comments on the principle of 'Reliability and completeness'.

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?*

We suggest that the statement in 1.18 to apply the process to 'all relevant reports and communications' may be confusing, as it may be interpreted that the Framework can also be applied to sustainability reporting. It should be clearer in the first sentence that this statement relates to all relevant reports and communications for the stated user group - the providers of financial capital.

We agree that the Framework is not the place to provide detailed specific indicators. However, experience shows that indicators are often derived from other reporting frameworks and guidelines and are therefore not consistent across sectors. We suggest referring in 1.19 not only to examples but also to the requirement of 'Consistency and comparability' (3.48).

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?*

Global Reporting Initiative G4 Guidelines

GHG Protocol

OECD Principles for MNEs

UNGC COP

Other

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

The requirements are spread throughout the document and do not stand out sufficiently from the text. We suggest highlighting these more effectively, for example, by placing them against a colored background, or separating them from the guidance material as in the clarified IAASB standards and GRI G4.

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 the link between these and the term 'value creation' is confusing. In particular paragraph 2.16 starts with ' Although organizations aim to create value overall ...' (positive) and finishes with ' the term value creation includes instances when the overall stock of capitals is decreased (value is diminished or destroyed)' (negative) These statements appear to directly contradict one another and bring the rest of the Framework into question every time the term ' value creation', 'creating value' is used. In our view this is a fundamental weakness of the Consultation Draft. In addition to the 6 capitals addressed in the Consultation Draft, we suggest the IIRC consider the addition of 'Reputational capital' (company and brand) as another capital as this can fundamentally affect the short and medium-term value of a company. While some incidents which impact reputation, such as a major oil spill, can be easily categorized under one of the 6 capitals ('natural capital'), recent publicity on issues such as tax (avoidance) and lobbying would not easily fit into the current categories. Should the IIRC not want to add a capital then we recommend reputation be specifically covered under 'Social and relationship capital'

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

See comments on the lack of prominence of 2.23 in covering letter

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?

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, although organizational reputation could be seen as external rather than internal. Also 'environmental effects' could be stronger e.g. environmental damage. In 2.35 2nd bullet: Example of conflicting use of 'creating value': ' Positive (i.e. result in a net increase in the capitals and therefore create value) or negative (i.e. result in a net decrease in the capitals and thereby diminish or destroy value)' conflicts directly with 2.16. where 'value creation is defined as both of these.

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)?

First comment above also applies to 4.22

Other

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

In our view the paragraph 2.6 is incomprehensible to the average person. Suggest deletion or explaining what is meant in normal language.

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?

See comments under 'Key points' regarding the risk of applying the same process to other (underlying) reports and communications. While the IIRC has chosen for one intended user group, there is a risk that reporters see the integrated report as a way of satisfying the information needs of a range of stakeholders, both in terms of content and the design of the communication. It should be clear that materiality for other user groups should be determined separately.

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

The materiality determination process focuses, logically, on the magnitude of effect. It is possible that this approach could miss significant effects on a small group of people e.g. a local community.

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?

See comments under 'Key points' regarding confusion between 'information' and 'data' (3.32). We believe narrative is just as susceptible to material error as data. Reporters should be encouraged to ensure that narrative is equally supported by systems and evidence and subject to internal assurance processes such as compliance auditing. This may mean adjusting the text under 3.35.

See answer to Q 19

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.

3F Consistency and Comparability

We recommend more attention is given in this section to the importance of publicly disclosing the organization's reporting policies and detailed criteria such as indicator definitions. There appears to be an assumption (e.g. in the last bullet under 3.52) that organizations use standardised definitions for non-financial information. Our experience is that even when organizations follow, for example, the GRI Guidelines, the individual definitions for indicators (e.g. the calculation of accident rate, estimation of spill volumes, incidences of non-compliance with regulations) vary considerably. For the information to be useful to the stated target user group we believe it is essential that users are told and are able understand the definitions used and how these may differ across companies in the same sector.

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).

See other comments regarding reporting boundary

4.31 last bullet: this mention 2 types of qualitative information to accompany KPIs. However, we recommend adding (an explanation of) 'the trend' to this - in other words, what actions (or lack of them) have caused the trend over time or is the trend not related to strategies but caused by other (random) factors.

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 - in order to raise the profile of the integrated report to that of the annual financial statements or financial annual report.

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?*

We strongly support the promotion of independent external assurance, but feel that the IIRC misses the opportunity in the Framework to extend the focus of this beyond KPIs (data, and against targets) to processes such as materiality determination and stakeholder engagement, as well as to the narrative in the report concerning the organizational strategies being used to achieve strategic objectives. As with the materiality process, we suggest assurance should focus on the most material subject matter for the target user group. We suggest that IIRC promote the idea of stakeholder engagement in relation to assurance on an integrated - report in other words, which sections with narrative and/or data (other than the financial accounts) are the most important for determining the decisions of the providers of financial capital.

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.*

We interpret this question to mean whether the 'requirements' in the Framework provide suitable criteria, as much of the text is guidance and not 'mandatory' although, of course, it can be used to interpret the broader meaning of the requirements. The requirements regarding the content elements could be used as the basis for a high level opinion on whether the content of the report contains the required elements. However, such an opinion could be very misleading if it is interpreted by users to mean that the information in the report or referred to in it, whether the financial accounts or GHG emissions, is free of material misstatement, This may be compared to the difference between the GRI Application Level Check and evidence-based assurance. In this respect we do not believe that the Framework provides sufficient detail in itself to

be used as suitable criteria for an assurance engagement. Assurance regarding the application of (of adherence to) the Guiding Principles would, we believe, require detailed work in areas such as stakeholder engagement, materiality determination, and the reliability and completeness of all the information in the report, which in itself would require much more detailed criteria for each issue.

We suggest that the IR Framework remains a framework and that assurance is provided on the information in the IR (or in other communications referred to in the IR) based on the criteria in internationally recognized standards and guidelines (such as IFRS or GRI).

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).*

Suggest that section 5C could be extended to include 'Disclosure of detailed reporting principles and criteria' as well as 'boundary/boundaries' and boundary considerations.

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?*

We believe it is a good start and will hopefully lead to broader disclosure regarding issues such as governance and risk management for the stated user group. However, the content (and also the presentation) may not be suitable for other users and stakeholders and so it may lead to an additional tier in reporting.

We suggest that it will only become more valuable in determining the actions of the providers of financial capital when they believe they can trust the relevant qualitative and quantitative information, for example when this is subject to independent assurance. We believe IR assurance should not go down the route of traditional financial auditing which, by focusing on past performance (data), has often failed to identify the risks for the medium and longer-term sustainability of the company. We would welcome a new approach to assurance for IR which covers management assertions regarding its strategic responses to opportunities and risks over short, medium and longer term as well as the results of its actions (performance).

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?*

Methodology and/or examples of how to attach financial value to the non-financial capitals (as this is in its infancy at the moment)

Understanding the 'trade off' principle (balancing financial gain against e.g. loss of natural capital)

Real examples of best practice reporting for each section/sub-section of the Framework. While a description provides the background real examples demonstrate not only what the theory looks like in practice, but will also promote higher standards in IR.

Other

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

None