

## 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](http://www.theiirc.org)).

**Comments should be submitted by Monday 15<sup>th</sup>, 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.

There is a growing recognition that investors and other stakeholders have a need for different information than is currently being provided. The call is for more forward looking information, covering a broader range of non-financial topics that is relevant for assessing a company's ability to create value. To this end, there are several organizations working to develop frameworks and guidelines that will help companies produce this type of information. While there is evidence of co-operation between these organizations, there is no clear path forward at this stage. As a result, there is an opportunity for the IIRC to set an ambition level and become the standard for corporate reporting going forward. In so doing, they could show how other frameworks such as the GRI can be used to support integrated reporting, thereby helping companies reduce their reporting burden while still providing relevant information for providers of financial capital and other stakeholders.

The IIRC has taken the providers of financial capital as the primary audience of the integrated report. While this has broad acceptance it is still a matter of some discussion. It would be useful to make the case why this decision was made and how by addressing the information needs of investors we are also addressing many of the needs

of other stakeholders.

## 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.*

One of the aims of the framework is to move corporate reporting in the direction of providing more future oriented information covering the financial and non-financial aspects of a business that will help providers of financial capital in their decision making. Often uncertainty surrounding future information or concerns about revealing competitively sensitive information will be challenging for a company in deciding on what to report.

Paragraph 1.12 provides guidance for companies as to what they should report when information is not available. It would be helpful if the framework also provided some guidance in dealing with some of the difficult decisions about whether to report an item or not.

### ***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?*

The vision is clear that the integrated report will be a stand-alone report prepared in line with the statutory financial reporting cycle. Paragraph 1.18 mentions that organizations may provide additional reports and communications (e.g. financial statements and sustainability reports) for compliance purposes. The framework could go further and set an ambition level for the integrated report to become the primary document used by companies to communicate internally and externally and in so further embed the idea of integrated thinking.

It would be useful if the framework provided a view on how it was to be used in combination with other reporting frameworks and the strict reporting requirements of regulators such as the SEC.

A principle based approach is strongly encouraged in helping companies develop reporting that meets their particular needs and avoid the risk that information is to be gathered for reporting purpose rather than to manage the company.

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?*

For financial information there are many sources that should be considered including IFRS, US GAAP etc.

For non-financial information thought should be given to linking to indicators currently provided by the GRI and SASB.

In creating an online database, clear guidance should be given to how the information from the other sources should be used in writing an integrated report.

***Other***

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

## **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?*

The six capitals provide a good framework for reporting on the various elements that a company depends on for their success. It expands the review of critical dependencies outside the traditional accounting concepts and will bring more comparability to corporate reporting by providing a framework against which companies can evaluate their performance.

Customers fall under the social and relationship capital, yet their loyalty and willingness to buy products and services are both critical elements to a company's long term success. Some more guidance in how to account for this relationship and report on changes in the value of this capital would be beneficial.

Asking companies to disclose the reasons they consider any of the capitals as not material could start down the path of "comply or explain" and so may move the focus of the report away from the items that are material to the company.

6. *Please provide any other comments you have about 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).

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

The main headings that have been used to describe the business model make sense.

It would be useful to see if there is some way of drawing attention to the role innovation has in the business model of a company and how this should be reported. It is included in the business activities but is likely one of the key value drivers.

Some additional guidance on the relationship between a company's business model and its value chain and how to describe the interaction between the two would be helpful. For example a company can trade off short term for long term value creation by selling a business unit or investing in a new market, or changing distribution channels. As investor time horizons can be relatively short, it would be useful to have some additional guidance on how to match the objective of reporting on short, medium, and long term value creation with the pressure to provide short term information for investors.

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?*

Some more guidance or examples of how to account for/report outcomes would be useful. For example, the internal example cited in the framework (2.35) speaks about employee morale and while this is an outcome it would be helpful to see the example worked through to understand how the IIRC sees this impacting human capital.

It could be worth including some guidance/thoughts regarding the need to report on outcomes in the short, medium, and long terms.

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)?*

### ***Other***

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

The definition of value in paragraphs 2.41 to 2.44 are very high level; to make them more applicable, a couple of examples or some more guidance would be useful.

## 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?*

An item is material if, in the view of senior management, it will influence the decision of a provider of financial capital. Guidance is given on the frequency such an assessment should be carried out but no guidance is given about validating the items chosen with the stakeholders involved to ensure that the assessment is accurate.

Matters are deemed material if they substantively influence the assessments of the primary users of the report. In this definition is the word 'substantively' clear enough for users of the framework?

Consideration could also be given to discussing how the definition of materiality by the IIRC aligns/conflicts with the definitions provided by other organizations such as the GRI.

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

### **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?*

Consideration could be given to discussing the role an external assurance provider might play in providing comfort on the reliability of the information reported.

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

### **Other**

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

A risk in applying a principle based approach is that, in the early stages, integrated reports prepared by companies in the same industry may not be easily comparable and even reports by the same company may lack comparability from period to period thereby making it difficult to fully use the information provided. The topic of comparability is addressed in paragraphs 3.51 and 3.52, however, more guidance could be given on this important issue.

## 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).*

Future outlook will be one of the content elements that reporters will struggle with especially those who have listings in the US. In recent years there has been a call from stakeholders for more information about the challenges, uncertainties, opportunities a company faces as a way of making informed decisions about its future value. This is happening against a backdrop where the legislation in the US and recent court rulings have rolled back some of the protections previously enjoyed by companies in providing such disclosures. This is an increasingly complex area, one where there is a lot of potential risk for reporters, and one where some more guidance from the IIRC would be beneficial.

## 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?*

Reliability is one of the guiding principles of the framework. Paragraph 3.32 talks about management exercising judgment in deciding whether information is sufficiently reliable but there is no external evidence for readers that such a process has been undertaken. As there is also no guidance provided on obtaining assurance from an independent external party, it could leave users of the report questioning the reliability of the data. Consideration should be given to providing users of the report with a level of assurance as to the reliability of the information whether via a statement from senior management (similar to S302 Sarbanes Oxley) or assurance from a third party.

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

### ***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?*

In an ideal world, assurance should cover the report as a whole as a way of enhancing the credibility of the information provided. There is a much longer tradition of companies obtaining assurance over their financial rather than their non-financial information and it will take some time until reporting processes and controls are consistent to allow for reasonable assurance to be provided on the integrated report as a whole. Until such a

time is reached, our goal should be to provide users of our reports with an understanding of assurance being provided and the meaning of such assurance for the credibility of the information. Unaudited information, or information that is audited to a level of limited versus reasonable assurance may still be reliable for decision making purposes due the strong internal control environment, however, guidance on how to make this clear to users would be a good topic to cover in the framework. It may be useful to frame the discussion about assurance around the concept of credibility setting an aspiration for companies to strive for providing the most credible information possible but recognizing that in the early stages of integrated reporting one solution may not be appropriate for all companies.

Going forward the IIRC could consider working with the large accounting firms to see if there are ways of developing an assurance report that is specifically tailored for an integrated report that is clearly written and easily understood by stakeholders.

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.*

### **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).*

The reporting boundaries of an integrated report and a sustainability report prepared under the GRI guidelines have expanded significantly from those established by traditional financial accounting rules. It may be useful in describing the boundaries of an integrated report to explain where they might differ from those prepared under the guidelines from the GRI or SASB.

The aim of integrated reporting is to provide a concise report of how a company has created value, however, different stakeholders need varying levels of detailed information to help them make an informed decision. To achieve this goal companies are writing shorter reports and providing additional detailed information on their websites. As a result, the reporting boundary is becoming less clear, especially when it comes to the assurance that is being provided. Some guidance would be helpful in terms of determining where the reporting boundary lies in the spectrum of concise reporting and detailed supporting information.

### **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?*

At this stage, having a principles based framework outlining the objectives and concepts of integrated reporting provides reporters the guidance they need to get started while still allowing for a flexible approach which will stimulate the development of reporting best practices. It also makes integrated reporting more accessible for companies wishing to get started as reports can be produced based on a company's size and reporting

maturity.

It would be useful to know if the IIRC intends to produce more detailed guidance in the future after the publication of the current framework.

## 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?*

Reporting on value creation/value chains and outcomes are relatively new and areas that companies are struggling with. In listening to feedback from investors it seems that more relevant information is needed but details or guidance on what that information should be was not commonly understood. It may be useful, together with the investor network, to try develop some guidance or additional information on what information companies should report around these two topics.

## Other

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