

July 9, 2013

Via website posting: <http://www.theiirc.org/>

Re: IIRC Consultation Draft of the International <IR> Framework

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the **IIRC Consultation Draft of the International <IR> Framework.**

Question 1

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

Response

We believe that all the proposed guiding principles and content elements are appropriate. However, we suggest that Corporate Social Responsibility (CSR) should be assigned a more prominent role and the Framework should require detailed information on how CSR is integrated with the business model of the economic entity.

Question 2

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

Response

We note that the Framework does not intend to prescribe specific indicators or measurement methods to be used in an integrated report, but only compliments the material developed by the other standard setters. We believe that IIRC should adopt a more pro-active approach and develop authoritative and principles-based comprehensive standards for <IR> including specific indicators and measurement methods because, in absence of such authoritative and principles-based comprehensive standards, the diversity in practice will emerge and the comparability of <IR> will diminish.

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?

Response

As indicated in our response to the earlier question, IIRC should develop its own authoritative and principles-based comprehensive standards for <IR> including specific indicators and measurement methods because referencing other extant standards may not serve the purpose of achieving uniform and comparable <IR> by the entities.

Question 4

Please provide any other comments you have about Chapter 1.

Response

We suggest that this chapter should provide more background information on the evolution of <IR> and how it complements the current financial reporting, and how it creates additional value for all the stakeholders.

Question 5

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

Response

We are in general agreement with the categories and description of capitals in the Framework, subject to our response to Question 6 below.

Question 6

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

Response

We suggest that the Framework should distinguish the commonly understood meaning of “Capital” in economics from that employed in the Framework. Similarly, the differentiation should be made between “Capital” and “Money”, as the latter is store of value as well as medium of exchange.

Question 7

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

Response

We are skeptical as regards to outcomes being part of the business models in the modern economic entities. We believe that the modern economic entities develop their business models focusing on the outputs that maximize shareholders’ value, rather than outcomes that maximize the value for all the stakeholders. It could be idealistic to ignore this fundamental reality and inflate the definition of business model to include outcomes which in any case cannot be objectively measured.

Question 8

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

Response

We agree with this definition of outcomes because it encompasses all possible ultimate impacts of an organization's business activities. However, as stated in our response to the previous question, we are skeptical about outcomes being part of business models of economic entities focused on the maximization of shareholders' value.

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).

Response

We suggest that the concept of business model, as narrated in Section 2C, should be reconciled with that provided by other authoritative pronouncements. For example, IASB has issued IFRS Practice Statement on Management Commentary in which, though the term business model is not referenced explicitly, the following related aspects are mentioned:

- Objectives and Strategies
- Resources, Risks and Relationships
- Performance measures and Indicators
- Critical financial/non-financial resources and how they are used.

It is necessary to institute a generally-accepted concept of business model for strengthening the conceptual foundation of <IR> and its further evolution.

Question 10

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

Response

We believe that paragraphs 2.41-2.44 do not define the concept of "Value" in an explicit manner, so that the economic entities can compute the same objectively. Hence, we suggest providing an unequivocal definition of this concept and, analogous to our suggestion in the previous response, we would also like to align the concept of "value" with that found in other disciplines, such as economics. This is appropriate because <IR> is more of an economic than an accounting assertion.

Question 11

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

Response

We believe that the <IR> should not differentiate between the providers of financial capital and other stakeholders, and designate the former as its primary intended audience. We are of the opinion that the other stakeholders are equally, if not more likely, to benefit from <IR> and, at the same time, the focus of <IR> should be long term rather than short term or medium term. This is because short term or medium term prognosis is often random, uncertain and in direct conflict with the goal of long term value creation.

Question 12

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

Response

We agree with the guiding principles on Materiality and Conciseness, as stated in the Section 3D, as well as materiality determination process in Section 5B. However, we believe that the entire process is inherently subjective.

Question 13

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

How should the reliability of an integrated report be demonstrated?

Response

We believe that, in addition to the measures stated in the paragraph 3.31, the reliability of <IR> can be enhanced by requiring the positive assertion on the internal controls over such reporting by the management and those charged with governance.

Question 14

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

Response

We have reservations about reliability and completeness of future-oriented information that can be presented in the <IR> because of subjectiveness, volatility and uncertainty underlying such information. Also, the IIRC should consider if the presentation of such information in <IR> could be misleading for the decision-makers who might instinctively rely on such information, ignoring the tentative or unquantifiable nature of such information.

Question 15

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

Response

We believe that, in absence of comprehensive implementation guidance, it would be difficult to achieve the goal of comparability of <IR> because of diversity in the specific circumstances of the economic entities and variability in the interests of the stakeholders.

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).

Response

We note that the content elements do include Opportunities and Risks (external factors), but not Strengths and Weaknesses (internal factors) in the <IR> Framework. We suggest including them in the Framework for making the SWOT analysis matrix an integral part of an Integrated Report.

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?

Response

We believe that a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report is desirable, so as to make such reporting creditable and reliable.

Question 18

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

Response

We believe that, since strategic and qualitative information constitute a significant part of <IR>, the responsibility and involvement of those charged with governance should be relatively much more than in case of financial reporting.

Question 19

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

Response

We believe that, if assurance is to be obtained, it should cover the integrated report as a whole, and not specific aspects of the report in order to avoid confusion, enhance clarity and make the Integrated Report creditable and reliable.

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.

Response

We note that the Framework provides only reporting criteria against which organizations and assurance providers assess a report's adherence; but it does not provide the protocols for performing assurance engagements. We believe that, for the further evaluation of <IR>, such protocols need to be codified and it should be one of the top strategic priorities of IIRC.

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).

Response

We caution against information overload in <IR> that will prove to be counterproductive and prevent timely production of such report, and may also result in boilerplate disclosure by the entities. Also, the reporting boundary should not unrealistically extend beyond the financial reporting entity, because of practical considerations such as cost/benefit analysis and diminishing returns on such extension.

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?

Response

We believe that the present draft of the Framework is a good starting point and it documents the concept of <IR> at a high level. The early adopters of <IR> can consult this Framework for the guidance. We understand that the transition to the new paradigm of <IR> is an evolutionary process and hope that ultimately a robust Framework will emerge by incremental developments.

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?

Response

We suggest the following three focus areas for developing explanatory material on <IR>, in addition to the Framework.

Conceptual Foundation: A robust conceptual foundation is the first and foremost condition necessary for erecting the edifice of high quality principles-based <IR> Framework. It is necessary to develop more precise concepts and definitions in addition to the Guiding Principles and Content Elements enumerated in the present draft Framework. The IIRC should not reverse

this process and should benefit from the experience of the other international standard setters such as the IASB.

Presentation and Disclosures: A standardized format of Integrated Report should be developed for facilitating inter-firm and intra-firm comparisons. The <IR> Framework should be strengthened by articulating disclosures regarding the basis of assumptions and estimates made in preparing the Integrated Report. The emphasis should not be on maximum information but on the optimum information which would be useful to the stakeholders.

Assurance Protocols: The protocols for providing assurance on the adherence of an Integrated Report to the criteria in the <IR> Framework should be codified.

Question 24

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

Response

We commend the work done by IIRC in the development and promotion of <IR> which we believe will represent a paradigm shift in the way that economic entities communicate with their stakeholders. We further believe that economic entities should also contribute in this endeavor by experimentation and innovation so that the <IR> Framework gains greater clarity and rigor. Also, the stakeholders need to actively support <IR> by encouraging entities that are not already doing so to make this a priority. In addition, stakeholders should be encouraged to provide input into efforts for developing the Framework for integrated reporting and standards for non-financial information.

When it is appropriate to do so, in respective jurisdictions, the appropriate legislation, regulatory action, or stock exchange listing requirements need to be put in place to mandate <IR>. These mandates must be principles-based and guided by market forces. We believe that, through effective engagement, NGOs can also contribute to the momentum of both market and regulatory forces.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefevre@cga-canada.org.

Sincerely,

[Original signed by:]

Rock Lefebvre, MBA, CFE, FCIS, FCGA
Vice-President, Research & Standards