

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.

Thanks for the opportunity to comment the draft, which is an important discussion contribution concerning sustainability management, disclosure and its future relevance for financial reporting. Financial capital markets have a potential leverage effect, either if they are short-term oriented or long-term oriented. The last crises made clear, that short-termism has come to an end and that the vulnerabilities are too high and no longer accepted by citizens. That will even grow if we consider the current discussions about global supply chains, human rights and the effects of climate and demographic changes on national market economies. If the orientation of capital shifts towards sound management, company's management will shift as well. Integrated reporting should be as applicable as possible for SMEs - because some of them are capital market oriented, too (i.e. on bond and credit markets) and are seeking for guidance, what the future level playing field for sustainable business is and how they can enter the competition about the best entrepreneurial sustainability solutions.

The German Council for Sustainable Development would be very open towards a cooperation with the IIRC. An option would be, to suggest the Sustainability Code as an

option for transparency meeting the requirements of the IIRC. With 20 specific criteria on ESG and a selection of key performance indicators the Sustainability Code gives clear orientation, what should be taken into account under sustainability concerns. We made valuable experiences with this transparency standard in one year of implementation of the German Sustainability Code on voluntary level concerning its practicability, accessibility and the delivery of comparable data. If the Sustainability Code would be connected with your initiative we could both profit in reaching aims of our work: to raise acceptance and relevance for and mainstreaming this kind of information.

If you have any questions, please don't hesitate to contact me!

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.*

I question, whether the principles-based approach can provide a sufficient degree of comparability of data. What is a sufficient degree targeted? In my perspective, it would be necessary to give guidance in advising specific reporting standards for the companies' attention and application (please see comment under 3). In Germany, I am often confronted with the question which standards are appreciated. This question should be answered in advance by the IIRC, in the framework itself or in commenting documents.

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?*

It is important to link to other reports, which fulfil the requirements of integrated reporting and thinking, i.e. quantifiable, reliable information given and its future-orientation. This focus, the aim to improve financial reporting towards a 360 degree-perspective on a company's value and value creation, should be stressed. The differentiation between a capital market oriented report and a stakeholder oriented report should be clarified. It should be specified, which reporting standards fulfil these requirements or how they should be improved, as most of sustainability reports are mere communication than reporting in narrower sense. Reporting should be evidence-based, granular and specific to allow modeling of future risks and opportunities as it is needed to create integrated thinking and valuation of capital market players (which mostly do not). Nevertheless, it may be of interest for ESG investments experts and general stakeholders such as NGOs or critical citizens, to get more detailed information on specific questions. Therefore there is still an option to link to complementary sustainability reports.

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?*

1. DVFA/EFFAS KPIs for ESG as they are specifically capital market oriented
2. G4 of GRI, as it is the most established sustainability reporting standard
3. the German Sustainability Code, as it is a transparency standard set up on these two reporting standards. We work on the Europeanization of this voluntary standard, which was launched as German initiative. First cooperations with other countries are currently set up, so we should be able to skip German until the end of this year (2013). The German Council for Sustainable Development would also be very open towards a cooperation with the IIRC to profit of the experiences made in one year of implementation. If the Sustainability Code would be absorbed by another initiative such as an accounting standard, an integrated reporting framework, or a European/ International Framework for ESG, the aim of our work, to raise acceptance and relevance for and mainstreaming this kind of information would be reached.

Whether the work of SASB or the "Superfactors for ESG", which are currently drafted on European level will be usable, should be discussed as soon as the drafts are published.

Other

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

Concerning the audience of IR, the management itself and the board of a company could be mentioned as well. Pilot companies, which exercise integrated reporting often tell of the experience, that some departments and board members, which are not originally working on sustainability issues have often be confronted for the first time with non-financial or sustainability performance indicators, when first attempts for an integrated report were taken. This is an important effect for sustainability leadership within a company and as such, management itself should be considered as an important audience for IR.

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?*

We partly agree. The description of capitals is suitable for business, financial stakeholders and actors of the capital markets. Caution is advised with these wordings for other stakeholders and the general public, because the economic view for example on human capital or nature capital sounds cynical for some and reaches its constraints in methodology (i.e. balancing the worth of biodiversity and nature services). Yet, we had a discussion, whether the description of capitals tries to influence in an inadequate manner internal proceedings and management structures of companies. This discussion showed, that it is unclear, what the intention of this section is - is it a description, how a business model should be oriented or background information which capital forms should be taken into account in an IR?

What is not described sufficiently clear is the "external environment". There are major influence factors and surrounding conditions for business, which limit or enable profitabilities in the various capitals. Elements like subsidies, infrastructure could also be considered as capital which are of use for and affected by companies. Rule of law, prevalence of patent rights, the political system and questions of liberty are important factors influencing the business environment. The exemplary list of factors in 4.9 should be completed and reflected in this section.

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

none.

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?*

I do not totally agree, as some business models may also aim on destroying values and capitals, some may target on short, medium or long term value creation. The definition given is normative.

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?*

I agree.

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.*

In section 2D "Value creation" the value creation for infrastructure, the market economies, where a company has business activities (i.e. corporate governance issues) and for the stability of the business environment should be added, as they empower the licence to operate in those regions and abroad. The supply chain issue should be addressed in this perspective, too, as workers in the very beginning of the supply chain as well as customers and clients are tied together more than ever in the globalized information society.

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?*

No, as this definition is not harmonized with other concepts of materiality for example in accounting standards or in sustainability reporting standards as GRI and EFFAS. As mentioned in 1.7 also other stakeholders may benefit of IR. Therefore it is necessary to reflect their perspectives on material aspects of a company as well, as this may influence the profitability and financial performance on the long run. Besides that, this perspective is often an early warning system for risks, which materialize later.

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

None.

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 best way to demonstrate reliability should in a first step be defined by the company itself and secondly by the standard setters for financial reporting. It would be good for establishing a global framework on IR, if the assurance of intergrated reports was harmonized. A minimum set of requirements for assurance should be defined by the IR-framework, such as proved quality standards, independence and the minimum level of assurance. A third party assurance should be obligatory, if the integrated report should be of importance for capital market actors.

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.*

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).

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?

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?

Third party assurance should cover the integrated report as a whole, otherwise it could be source for misunderstandings and uncertainties.

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).

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?

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?

Explanatory material should only be given, if these information will not be integrated in the framework itself (which would be favourable)

- recommendation of specific transparency standards in favor of comparability, reliability and credibility
- practical hints for establishing a credible integrated report meeting the requirements of the IIRC

Other

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