

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.

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.*

Taken collectively, the principles presented in bold italics support a framework that appears to have cohesion and logic, as well as relative ease of application where supported by appropriate resources and driven by the organisational leadership. Without

suggesting additions or deletions, it is remarked that the initial black-letter introductory definition (paras. 1.2 – 1.4) in its emphasis on communications and value creation may, for some readers, distract from awareness or acknowledgment of the market failures, business behaviours, and environmental and social conditions which have precipitated the now significant push for integrated reporting. As such, we recommend that consideration be given to strengthening the paras. 1.15 – 1.17 discussion of Integrated thinking to give it stronger context.

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 contrast presented in para. 1.18 between an <IR> process applied continuously and the production/ presentation of an annual standalone integrated report warrants some elaboration. Observation of the experimentation currently taking place emphasises, understandably, the end outcome of the reporting cycle, particularly as reporters seek to de-clutter and streamline their annual reports. If there is, as seems strongly suggested, a reorientation of wider communications to providers of financial capital, this needs to be more clearly spelt out. In the final sentence of para. 1.18 the statement “may include links to other reports and communications” is made. It is suggested that this might be altered to more forthrightly suggest the provision of these links where practical. This, we believe, may enhance and reinforce the ideas of integrated thinking and connectivity.

Further, it is observed that there may be an absence of clarity within para. 1.18 where it discusses “applied continuously” and that a “stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle”. We believe it important in this context that the Framework more adequately address the circumstance and treatment of material changes in any components occurring during the year that do not coincide with the statutory reporting cycle.

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?

A degree of caution is warranted here as there may be, through some suggestion of prescription, an undermining of the principle-based approach favoured in the draft Framework as it presently stands. Likewise, any suggestion of the development of templates would seem a ‘bridge too far’ and contrary to the experimentation that must necessarily take place with a relatively novel approach to corporate disclosure. Further, it is recognised that integrated reporting is not designed nor intended as a basis for benchmarking. Finally, much of the content and underpinning will be driven by local institutional and competitive factors which cannot be comprehensively addressed in a non-jurisdiction based framework.

Other

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

No comment

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?*

It is acknowledged, and agreed, that an organization may not adopt the six capitals categorization because of its own distinct nature, needs, business model and basis of value creation. This flexibility is introduced at the start of 2B. Further into 2B the language used is more forthright and prescriptive of the use of the six capitals as a benchmark (para. 2.21), linking in turn to para. 4.5, which presents a 'black letter' requirement that the omission of any of the capitals be identified and explained on the basis of immateriality. Explanation of this relationship and benchmarking process might be better achieved through placing the cross-reference to para. 4.5 towards the start of 2B. Paragraph 2.12 itself could be strengthened by stating that the six capitals categorisation is "preferred" given that it is such a fundamental concept. Otherwise, we concur with the categorisation and explanation of the capitals. It is mentioned in passing that our reference to 'benchmarking' is confined to the context set in para. 2.21.

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

Whilst we are in agreement with the prominence given to the six categories of capital as a fundamental concept central to integrated reporting, mention might be given to the contrast in the lag and lead applied in respective measurement. This in turn could facilitate linkage with short, medium and long term time horizons applied in both integrated reporting and underlying management. Finally with respect to the discussion of the six capitals, we believe that the drafting of paras. 2.12, 2.19, 2.21 and 2.29 needs to be reviewed to achieve better linking and communication of the concept, with perhaps 2.29 repositioned earlier in the discussion. This, along with cross-referencing to 4.5 should enhance reporter understanding.

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?*

Yes, as the definition encompasses the behaviours and performance integrated reporting seeks to address. The definition is likewise appropriately succinct, drawing attention to the notion of value creation. We suggest that the definition in para. 2.26 could be enhanced through reference to value allocation in addition to "aims to create value". Moreover, we commend the IIRC on the developments apparent in the business model discussion and on the increased clarity of the business model in the Consultation Draft.

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?*

Again, this definition is agreed with. It embraces the vital point that value creation has positive and negative consequence spanning internal and external dimensions, and affecting wider constituencies of interest beyond an organization's ownership.

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)?*

This component of the Consultation Draft has the potential to drive understanding and more acceptance of the Framework and should be emphasised as discussion advances in 2014 and beyond.

Other

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

It is suggested that the meaning sought to be conveyed in para. 2.7 could be improved by removing "identifies" and replacing it with "enables identification". Otherwise, we believe that what is presented is a balanced model that will be intuitively appealing to accountants, particularly given the draft Framework's description of input/ output relationships. The draft Framework has prima facie application to the not-for-profit sector, though its appropriateness for government and public sector reporting is less certain. These observations should not be seen as suggesting at this juncture a more generic approach, as this would undermine the present focus, critical in the seminal stage of development.

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?*

It is conceded that within a principle-based model it is difficult, and probably inappropriate, to provide specific guidance on materiality and processes for ensuring reliability. Nonetheless, the draft Framework warrants strengthening here. The provision of templates or examples may be too prescriptive. We suggest that one means of addressing balance here is through reference back to the concept of capitals. This could serve also to achieve some 'dynamic' to the reporting and materiality assessment process.

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

Generally, we are in agreement with the approach to materiality determination presented in 5B. However, we suggest that both internal practice and user confidence could be enhanced through disclosure (para. 5.13) of changes in materiality between periods, with some form of narrative reconciliation of significant changes, recognizing of course that these are often matters of managements' professional judgment. As such, it is further suggested that assessing materiality at least annually should also be made in 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?*

We believe that the discussion here (para. 3.31 – 3.32) could be strengthened. The nature of reliability, and whose assessment it is, is not stated – instead a number of possible sources of enhancement are mentioned. There is therefore scope to refer to the types of users and their assessments/ decisions upon which reliability of information is a key determinant of judgment. The text could also benefit from some cross-referencing, for example between “appropriate stakeholder engagement” and the 3C discussion of Stakeholder responsiveness. We provide in our responses to Questions 19 and 20 a more expanded discussion on the function and challenges for external assurance’s enhancing of integrated reporting reliability, amongst other relevant considerations.

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

It is suggested that the discussion of Competitive advantage (paras. 3.42 – 3.45) could be further strengthened by reference to the frequent presence of either statutory or stock exchange rule-based continuous disclosure mechanisms, which compel specific disclosure of information that might be regarded as commercially sensitive. Similarly, we suggest that consideration be given to expanding slightly the topic that follows in 3E (Future-oriented information) to emphasise that such disclosures can be a basis of reasonably informing stakeholders, and thus, a means by which risks and exposure can be reduced.

Other

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

No further comment.

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).*

Paragraph 4.4 is presented as a 'black-letter' requirement and is followed by para. 4.5 containing further obligatory content elements. The latter are cross-referenced to other parts of the draft Framework. We suggest that para. 4.4 be similarly elaborated with short explanatory text, or cross-referenced to paras. 1.18 – 1.20. Additionally, we suggest that the impact of para. 4.4 could be enhanced through including "need" as well as "want additional information" as this may prompt deeper internal inquiry around the utility and purpose to which stakeholders apply information.

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?*

This requirement is both logical and essential. As a report that seeks to encapsulate attributes of overall organizational performance, practice and prospects, the function of oversight and endorsement of an integrated report resides at the highest level within the organisation. Moreover, this level of endorsement is essential to users' confidence and is an important element in continuous improvement and currency of the reporting process. Additionally, many of the underpinnings to the integrated report, say in relation to financial reporting and governance disclosures, would require this level of acknowledgement. It thus stands to reason that the integrated report is likewise endorsed at this level. It is clearly understood that the function of directors is to guide and give stewardship to the companies to which they are appointed – reporting which pertains to these outcomes therefore sits appropriately with those who are so charged by statute or corporate constitution. Finally, it is remarked that at a behavioural level, such a requirement reinforces board responsibility for both financial and nonfinancial performance.

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

No further comment.

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?

It seems fair and logical to accept that integrated reporting provides a holistic disclosure of overall organizational performance, practice and prospects. This points strongly to external assurance which addresses the integrated report, as an integrated whole. Likewise, when viewed from the users' perspective, it is unreasonable to expect that they should have to make their assessments on some information which is assured, and some which is not. If we view assurance as a vital element in continuous improvement of reporting, the most effective outcomes will come from a comprehensive and coherent approach. As 'integrated assurance' evolves, additional consideration would be needed on the external assurer's reliance on management commissioned (internal) assurance exercises. Finally, it is remarked that a more comprehensive approach will be important in addressing the fact that discrete elements of underlying information will likely be subject to different forms and levels of external verification. It is therefore important that at an aggregated or summary level, a more comprehensive assurance approach is warranted.

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.

The reference to assurance contained under the heading Credibility (paras. 5.19 – 5.21) is of particular interest to assurance providers, and accountants more generally. We acknowledge the need both now, and during the future development of the Framework, to strike an appropriate balance that gives the audience confidence and guides assurance approaches without impeding wide uptake and developing practice. The present wording is essentially aspirational in nature and avoids mention of assurance scope and form of assurance opinion, amongst a range of critical issues. The present need to stay relatively 'soft' may not suffice in the long term. Part of this understanding will evolve with practice at industry sector and national jurisdictional levels. It is on this basis that we would suggest in response to Question 23 below, that the IIRC devote consideration and resources to developing articulation and guidance of how the legislative and regulatory landscape influences the content, preparation and presentation of integrated reporting.

Our final comments with respect to assurance pertain to the degree of prescriptiveness in developing assurance standards. Such standards work best when assurance is against hard processes as opposed to principles-based reporting. This is a particular problem when relying upon materiality and the possibility that 'material issues' may arise and disappear over reporting cycles particularly if management are appropriately addressing such issues. Hence assurance may require articulation of the fluid reflection of management emphasis over the reporting periods versus some rigid reporting frameworks with underlying metrics etc..

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).

Assurance frameworks and approach also need to develop, particularly around the hard processes vs principles based requirements aspect, and we would see <IR> as a useful catalyst toward such development.

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?

CPA Australia acknowledges that the draft Framework is a significant, though first, step in the major transformation of corporate and business reporting. Further endeavors will no doubt need to be applied to build capacity and achieve enabling outside of the extensive work being done by participants in the Pilot Programme. This poses significant challenges for the IIRC in terms of providing resource, or guidance, to those businesses starting from a low base of experience and knowledge. It is vital that appropriate regard be given in the IIRC's post-launch strategies to emphasise the underpinning of good integrated reporting in sound business information systems and management practices. The 'how to' will be of significance to drive awareness amongst potential users, governments and regulators.

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?

In addition to the suggestion contained in our response to Question 20, we urge the development of additional explanatory material that gives greater depth of understanding of the audience and information utility of integrated reporting. This is not to suggest a need to depart from the present emphasis on providers of financial capital. Rather, there are significant issues around how this group may or may not form a 'proxy' for other stakeholders and how the decisions of this group support the purported gains of market transparency and lower cost of capital. This, of course, should not be seen as a cause for encouraging the development of voluminous extraneous explanation and notation to an Integrated Report. As such, the Framework should be able to develop and evolve continually so that there is a robust link to users of integrated reporting and the information provided in this medium.

Other

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

No further comments.