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:	Provider of financial capital

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

Organization name:	
Industry sector:	Not applicable
Geographical region:	Middle East

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.

Thank you for giving us the opportunity to comment on the Consultation Draft of the International Integrated Reporting (IR) Framework.

In several business sectors we can now track the product (object) flow in supply and value chains to the end user. Advances in technology (RFID, XBRL GL, data warehousing, etc.) have created an opportunity and data revolution to support a paradigm shift to new reporting schemes for business entities and, in due time, for other organizations such as public sector and not-for-profit entities.

Historically, valuation models using mixed attributes have been employed as a bridge to perform the tracking, control and reconciliation of financial information. In extension and support for this accumulated information, the related and unsorted disclosures have outgrown its usefulness and added complexity to the reports.

We suggest to separate object tracking from valuation and focus the reporting and related disclosures on three areas (objects):

1. People identification and reporting 2. Product tracking and reporting 3. Physical infrastructure reporting

We note that this is in contrast to the six capital approach that the consultation draft employs at the moment.

Along this 3P structure, each organization has to define their own objects, i. e. quantify objects and value them and provide aligned business model disclosures on people, products and physical infrastructure on an aggregate (or consolidated) level considering transparency and materiality aspects. Materiality should start with object identification and impact, not just value relevance. Assurance and validation need separate professional focus and experts: one for object validation and certification and another group for valuations considering defined reporting time frames and standards. Large accounting firms are prepared (through their consulting divisions) to expand their expertise and opine on an integrated report.

Funding, equity and taxation obligations as part of Financial Capital information should be provided in an integrated historic and forward looking Cash flow statement frame and provide accrual aspects for performance (cut-off) evaluations.

The IR discussion is forward looking in their framework development. Organizations will need systems, processes and sophisticated internal controls to enable them to capture and document the content to enable them to prepare reports, process the resulting information, and publish it in integrated reports in a reliable fashion. These systems requirements should perhaps be stated in a preamble to the framework.

One of the crucial points to bear in mind, as we debate over the viability of the six-capital model or the 3P model proposed herewith, is the extent to which either model serves a better business practice. From this pragmatic perspective, we propose that a taxonomy is tested out in practice by an actual business organization with a relatively straightforward value chain (such as a cosmetics company, a milk manufacturer or an automotive company with a more sophisticated value chain).

For further details please refer to:

"How many Capitals do we need?" at http://www.accountancyme.com/special-reports/how-many-capitals-do-we-need/

"Integrated Reporting and Intellectual Capital - Concepts and possible Solutions" in Fischer/Wulf (Eds): Wissensbilanzen im Mittelstand, Stuttgart, May 2013, pp.109-124.

Ramin, K./Reiman, C. (2013) IFRS and XBRL - How to improve Business Reporting through Technology and Object Tracking, Wiley 2013, 730 pages (with a foreword by Robert H. Herz, former Chairman, FASB).

Lew, S. (2013) "The use and application of the Capitals Approach in Business Reporting, Case Study in the UAE", forthcoming.

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.*

There should more consideration of framework and principles harmonization with other reporting and technology standards (e. g. IFRS, GRI, ISO, IPSAS, SNA (UN), IVS, XBRL, SASB, others).

Despite of the outline in 5.F, please further define short term, median term, long term and align, relate and converge these terms to statutory cycles for improved comparability. Provide examples and implementation guidance.

Principles have to be sufficiently clear to provide for a consistent, comparable and concise data accumulation and reporting pyramid.

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?*

No. We acknowledge that integrated reporting is about expressing the company's unique value creation model through focusing on opportunities and risks. Too many competing reports would inhibit comparability.

Therefore, the integrated report should include links... (instead of "may)" (see requirements of paragraph 4.4)

Include comments on the completeness of interactions with funders and stakeholders.

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?*

Sort these references on a global, geographic and industry sector basis. Ideally separated into object tracking and valuation standards as well as governance and business model guidance.

Make reference to IFRS, GRI, ISO, IPSAS, SNA (UN), IVS, XBRL, others.

Other

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

Please see "Key Points" for a suggested paradigm shift to a new reporting model.

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?

In principle we agree with the approach on capitals to be used as a benchmark. To some degree it ties into (financial) balance sheet reporting.

The challenge is on how to build an effective reporting and presentation matrix (drivers, e. g. 3 P's) and relate disclosure to the capitals, not on how many capitals are employed or reported on. This varies by industry or sector. Natural capital is rooted in manufactured capital but it is influenced by human and social relationships. This should be explained in disclosures.

The key questions is on the identification, control and store of value and flow considerations of the capitals. Discussions on the new IFRS revenue recognition standard could be helpful in this regard.

We also believe that an integrated report needs to depict not only the store of value (capitals), but also the “flows” (positive and negative changes) – that is, the value streams creating capital and being generated from the use of capital.

Some capitals (IC) are difficult to identify and to control and therefore difficult to employ as a store of value.

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

Please refer to "How many capitals do we need?" mentioned in the Key Points section.

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?

Agreed. Consider to eliminate/replace "chosen".

The focus should be on value creation over a "longer term".

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?

Agreed.

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)?*

Disclosures should be aligned to the appropriate content elements and related to the business model drivers (people, products, physical infrastructure (3 P's) and funding).

Further consideration of a statement on geographic location (legal, tax) governance model (OECD), competitive environment.

Other

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

IIRC should coordinate definitions for "objects, elements, building blocks, cash-generating unit, etc." with other standard setters.

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?*

Materiality should start with object identification and impact, not just value relevance. Liability on products/people (objects) aspects has a different material affect than a change in a major currency (valuation) or change in valuation method.

Likelihood of occurrence and implications are easier to determine based on this separation into objects and value.

Change (watch!) spelling of "occurrence" in chart on page 31... :)

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

Material disclosures are time sensitive (legal liabilities) and require different attention depending on the environment the organization is operating in.

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?*

Describe the status of the control environment (IT, governance, etc), e. g. refer to COSO or similar guidelines. A statement on completeness on object identification is required. Valuation methods need to be explained in a simplified fashion.

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

Provide external assurance (separate methodology for objects and valuation).

Other

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

Organizations should be obliged to define KPIs in their integrated reports.

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).

An organizations business model is at the core of integrated reporting. We recommend the following reporting sequence: A: description of the Business model; B: Organizational overview and external environment; C: Governance; D: Strategy and resource allocation; E: Performance; F: Opportunities and risks; G Future outlook.

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. Good corporate governance ought to include not only the profit motif but also the environmental and social responsibilities of the organization and to report on such matters along with the financial statements. This broader definition of governance, in effect, corresponds to requiring those who are charged with governance to generating an integrated report. It leads to integrated thinking and holds management accountable for the information provided.

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

There should be a clear set of responsibilities and close co-operation with stakeholders. Follow OECD guidelines and consider transparency (avoidance of corruption) as one of the top objectives of the organization.

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?*

Assurance needs to be provided on the integrated report as a whole. Separate approach for object and value assurance. Consider AA1000AS and ISAE 3000.

Combine the audit results and opine on an integrated report. It is not helpful to provide a boilerplate assurance report, be specific (AA1000AS).

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.*

Separating evidence into objects and valuation will improve credibility of an assurance engagement (and confirm management assertions).

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 IASB is working on an "integration" of Financial Statement elements, documented in a discussion paper (2010). Consider this for Financial Capital presentation.

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 anticipate that the Framework will play a central role for organizations in a manner that is similar to the role which the conceptual framework for IFRSs played (will play).

We highly aplaude the IIRC's efforts so far. We believe, that its work will assist organizations in challenging the way they create value, in identifying the material value drivers (3 P's) and in improving governance through integrated thinking.

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?*

1. Reach agreement with main standard setters and regulators for the further approach to be taken. Define responsibilities for development. This would identify additional topics needed.

2. Encourage Public sector reporting, private organizations and not-for-profit entities to apply the same approach. This would improve discussion on Natural Capital and measurement of externalities.

3. Complete field and case studies, illustrative statements and checklists for main industries and sectors. This should be done in conjunction with main IT and global assurance providers.

Other

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

No further comments.