

## 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.

Afep represents more than 100 top private sector companies operating in France. The answer to the present consultation document reflects the views of Afep's member companies expressed during a meeting especially convened for this purpose.

Companies consider the IR Consultation as an interesting contribution to the reflection regarding non-financial information and the process that the management may implement internally to take into account the company's relationships with stakeholders.

French companies build on a decade long experience of including items of non-financial information into their management reports, as legally required in France.

However while acknowledging that non-financial information enriches the analysis by investors and other stakeholders, companies consider that the mandatory financial reports they publish provide most of the non-financial information that can be reasonably disclosed without impairing the quality and reliability of the information provided.

An introductory narrative summary at the beginning of mandatory financial reports or of

sustainability reports would be sufficient to meet supplementary needs for concise and material information and would thus not require to determine new forms of verification or control (such as a specific assurance on non-financial information). Also, as there are many uncertainties attached to the non-financial information that would be included in an integrated report, an external assurance would be costly and would not be sufficient to make this information reliable.

Companies strongly believe that the concept of IR cannot be promoted at international or European level as a mandatory public information framework. Further integration of non-financial information and financial information, as proposed, would not be possible and would be a source of confusion for investors. In particular, the proposed principles would not enable to reliably solve major problems that have not been settled for financial information:

- the objective of describing how value is created based on 6 capitals is clearly out of reach: it is extremely complex, if not impossible, to reliably measure other than financial capital (intangible, human, natural...), of which the company is not necessarily the sole owner, and, therefore, to measure the value creation;
- there are numerous difficulties linked to the forecasting exercise and to any mandatory public disclosure of prospective information;
- the proposed framework would lead to the disclosure of commercially sensitive information (strategies and value drivers; opportunities; resource allocation; intentions; data relating to research and development...)...
- it is not possible to aggregate or synthesize all the risks of a company/group. Indeed, quantitative thresholds or risk profiles can be established and followed for certain risks only (e.g. market risks); risks - and the measures taken to control them - are changing regularly and interact, thereby rapidly rendering irrelevant and obsolete any attempt to conduct an overall measurement and ranking of risks.

These views are based in particular on the following:

- non-financial information is not comprehensive and often qualitative, and cannot reflect a non-financial performance;
- the principles applicable to non-financial information request only rarely specific quantitative data or indicators, even more exceptionally monetized indicators;
- unlike financial reporting standards, they generally do not include recognition, measurement and presentation principles in relation to these data or indicators. This is in particular because the indicators (social, environmental...) often are not consistent and comparable (eg they can vary from one country to another);
- the limits between the reporting entity and its external environment would be blurred and different from those used in the reporting of financial information ("financial reporting entity"). Conceptually, this would affect the process aimed at measuring value creation. In addition, if a statement from the body charged with governance were to be published, problems of liability could arise when the company expresses itself on behalf of other stakeholders, external to the company;
- the principles applicable to non-financial information are closely linked to industries and not readily comparable;
- the level of reliability of non-financial information is still much lower than that of financial information;
- thus generally cannot be consolidated at group level.

## 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.*

The terms "requirements" would imply that the integrated report is a mandatory report. However companies regard the IR Framework essentially as a set of principles that may be used internally to manage their business or prepare/refine their communication with stakeholders, or externally to improve the presentation of elements that are already published. In any case the content elements that would be retained in an IIRC framework should:

- neither form a new report in addition to the numerous reports and communications that companies are required to publish (management, financial and transparency reports, financial statements; prospectus and its summary...);

- nor duplicate, or be redundant with, their content elements.

- \* Only legislators may decide to revise the existing architecture of mandatory reports and other communications;

- \* There are contradictions between the underlying guiding principles, such as "materiality and conciseness" on the one hand, and "reliability and completeness" on the other hand.

- \* If a company includes all material matters as required by principle 3E, the report is unlikely to be concise. IR examples consulted on the IIRC website illustrate the difficulty to produce a concise integrated report;

- \* Companies underline the need for conciseness and reliability and thus the need to favour links and cross-references to other reports and communications. The level of detail proposed is inappropriate and according to one of the pilot companies, unrealistic;

- \* Other content elements regarding opportunities and risks, strategy and resource allocation, performance and future outlook are considered too intrusive and exposing the company to competitive risks and liability issues.

### ***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 integrated report is presented as a stand-alone document, linked to other reports and communications for those stakeholders who want additional information.

Also this would imply that the integrated report is a mandatory public report, whereas

companies regard the IR Framework essentially as a set of principles that may be used internally to manage their business or prepare/refine their communication with stakeholders or externally to improve the presentation of elements that are already published. In any case the content elements that would be retained in an IIRC framework should:

- neither form a new report in addition to the numerous reports and communications that companies are required to publish (management, financial and transparency reports, financial statements; prospectus and its summary...);
- nor duplicate, or be redundant with, their content elements.

The idea of a concise communication about a company's ability to create value over the short, medium and long term may seem attractive to investors, but, as mentioned, is out of reach. In particular companies highlight the following:

- as proposed, the integrated report would include new elements of content, not published in other communications, thereby increasing the risk of litigation or confusion. Indeed, presenting risks in the integrated report in a way that would go beyond the current disclosure requirements would be a source of confusion;
- if contents are the same, companies do not wish to duplicate;
- the preparer of an integrated report could be put in question or even sued for presenting incomplete information which does not precisely reflect all specific risks or material elements. For reasons of liability the integrated report should therefore be clearly linked to already published information.

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?*

There is a multitude of indicators developed, notably by GRI and different industrial sectors (eg. WBCSD CSI - Cement Sustainability Initiative; Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain; SASB...). The creation of a database covering all indicators and measurement methods would be of general interest.

However, these sources should not be considered as "authoritative" (see our response to question 2).

#### **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 such as described in Section 2B are theoretically a seducing concept. In practice however, companies consider that the reliable valorisation or measurement of capitals other than the financial capital is an extremely complex, if not impossible, exercise. Some of the capitals such as the natural capital, are not necessarily in the company's only ownership.

Companies may endeavor to describe in a narrative and qualitative way certain uses of, and effects on, the capitals. However their interdependencies and trade-offs are so complex that the concept seems too ambitious to be applied by organisations and companies.

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 inputs and outcomes will again meet the same difficulties of identification, measurement and description as the section on capitals themselves.

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?*

According to § 2.36, "identifying and describing outcomes, particularly external outcomes, requires organisations to consider the capitals more broadly than those that are owned and controlled by the organization." Therefore the implementation of this definition would be in practice very ambitious and difficult to tackle.

More generally, and as illustrated in figure 7 of the consultation document ("Mapping the entities/stakeholders that are considered in determining the reporting boundary"), this implies that the limits between the reporting entity and its external environment would be blurred and different from those used in the reporting of financial information ("financial reporting entity"). Conceptually, this would affect the process aimed at measuring value creation.

In addition, if a statement from the body charged with governance were to be published, problems of liability could arise when the company expresses itself on behalf of other stakeholders, external to the company.

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)?*

Please refer to our response to question 2 regarding the use of the term "requirements".

## **Other**

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

Companies, including one of the French pilote companies, underline the difficulties linked to the concept of value creation, and where applicable, to its implementation. This is due in particular to the issues related to the identification and measurement of capitals (see our responses to questions 5 and 8).

## **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?

- The approach chosen by IIRC to determine materiality by reference to investors primarily may result in a certain imbalance of information presented in the integrated report. Reporting is also intended for the company itself and other users (employees, suppliers, customers, other stakeholders...);
- The approach to materiality presented in section 5B seems conceptually attractive, but very difficult to implement. In particular this is due to the fact that many elements that are referred to are difficult to identify and value: capitals, inputs and outcomes, added value... (see in particular our responses to questions 5, 7 and 8);
- Finally, according to § 3.25, "determining materiality (...) involves (...) prioritizing the matters identified based on their importance in terms of known or potential effect on value creation.". According to § 3.26 this applies to both positive and negative matters ((e.g., opportunities and risks, and favourable and unfavourable results or prospects for the future).

As mentioned above, not only, on the one hand, it would be difficult to measure value creation and, on the other hand, companies do not wish to be required to publish opportunities and prospective information; but also any prioritizing/ranking of risks would lack relevance:

- risks, which are very different in nature, are managed separately for each type of risk and not necessarily at the company or group level. In addition, many risks - as do the business opportunities that might balance them - are not quantifiable or precisely measurable; some may even be difficult to identify;
- it is not possible to aggregate or synthesize all the risks of a company/group. Indeed, potential quantitative impacts or risk profiles can be established and followed for certain risks only (e.g. market risks) and, where applicable, it is particularly difficult to reliably estimate the probabilities of occurrence associated with such impacts; in addition, the risks - such as the measures taken to control/hedge them and the probabilities of occurrence - are changing regularly and interact, thereby rapidly rendering irrelevant and obsolete any attempt to conduct an overall measurement and ranking of risks.

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?

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

As mentioned, the level of detail is inappropriate or unrealistic. Also, feasibility and cost should be considered when determining the extent, level of specificity and preciseness of information to be included in a communication, in contrast to § 3.38, which indicates that it would be inappropriate to refrain entirely from making disclosure on the basis of cost.

### **Other**

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

According to § 3.15, stakeholders provide insights that are intended to assist the organization in many areas (identify material matters, including opportunities and risks, develop strategy, manage risks, implement activities...).

This amounts to considering that stakeholders are co-managers of the company and therefore lose their role as third parties. While emphasizing the importance of a constructive dialogue with stakeholders, companies consider that it is neither appropriate nor feasible.

In addition, this would contradict § 3.23, which defines materiality by reference to the influence that a matter would have on the assessments of the report users.

## **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).

- The disclosure of companies' governance policies is already and appropriately addressed in corporate governance and internal control and risk management reports. No further details are needed (§§ 4.10 to 4.12); European legislation and practice provide for the disclosure of a significant amount of information requested by the IIRC;
- Companies consider that future outlook (forecasts, projections...) should be disclosed only on a voluntary basis. This information generally is sensitive and might be misleading for users, due to the level of uncertainty.

## 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?*

No, there should not be such a requirement:

- there are large uncertainties attached to the non-financial information that would be included in an integrated report (see our responses to the previous questions) and the information provided would to not be sufficiently reliable to be published and subject to a statement of responsibility;
- the non-financial information that is sufficiently reliable to be published is included in mandatory reports and communications and follows the related regime.

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?*

We do not consider that assurance is to be obtained for the following reasons:

- non-financial information is already included in the reports and other communications published by companies and thus may already be subject to appropriate forms of verification or control;
- no assurance is required on this information, including in France, where the disclosure of a limited list of non-financial indicators is required. The focus instead is on the verification of a process used to establish the information required;
- there are many uncertainties attached to the non-financial information that would be included in an integrated report (see our responses to the previous questions): an external assurance would be costly and would not be sufficient to make this information reliable.

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.*

Please refer to our response to question 19.



## 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).

- According to § 5.2. (Section 5A “frequency of reporting”), the IR process is intended to be applied continuously to all relevant reports and communications. Companies believe this would be overly burdensome and costly and consider that the appropriate frequency is an annual basis. Specific assessments can be conducted in case of major events;
- Reporting boundary (Section 5G): please see our response to question 8;
- According to §§ 5.40 and 5.41. (Section 5I “use of technology”), XBRL would improve information and information connectivity by providing standards and explicit relationships between information in an integrated report. We disagree with this statement:
  - XBRL is an information technology language allowing, under certain conditions, standardised data to be treated (access/identification, analysis, presentation/comparison, exchange) in different fields: among different technologies, XBRL may be of help only if the information is standardized before the treatment. It does not provide but relies on predefined definitions, relationships and contexts;
  - automated comparisons can only be made for data strictly standardised and translated using up to date taxonomies. Other data, for example narrative or qualitative data (including non-financial data), are either reflected inappropriately or reproduced without any changes, resulting in costs without any added value. While improved comparability may be the aim, the reliability of the information provided may be questioned. Indeed, it may prove to be incomplete, inaccurate and, in fact, not comparable, particularly as it may be partial or presented out of context.
  - the use and limitations of XBRL raise a liability issue. Under no circumstance should companies be held liable for the consequences of using taxonomies which might prove unsuitable or of using a language which ultimately might not reflect the substance of their communications. The quality of companies’ reporting should not be assessed on the basis of information in XBRL format.

## 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?

Please refer to our response to our key points above.

## 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?

## Other

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

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