

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.*

a) Some may find the terminology confusing: "principles-based requirements" and "guiding principles". The latter relates to report content and quality, whereas the former is about overall framework and process.

b) "Connectivity of Information" may well be complemented by the principle of "Sustainability Context" (cf "External Environment"), to make clear this is not only about connectivity at micro / organisation level between capitals but also understanding those connections in an appropriate (macro) context. So the issue for IR is not only about temporal scale (short / medium / long term time frame) but also about spatial scale (eg local, regional, global). Some issues like climate change are inherently global, and some are inherently local (like biodiversity - best addressed with local scope though global in occurrence as issue).

c) Helping reporters position a concise IR vis-a-vis current financial reporting and sustainability reporting, it may be good to have the Content Elements refer / recommend that additional data in the form of "Consolidated Financial Statements" and "Consolidated Sustainability Statements" can be provided elsewhere / online with use of standards such as GRI?

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?*

a) The interrelation with GRI as the leading sustainability reporting standard - comprehensive & global as opposed to thematic (eg CDP) or national or indicators-focused (eg SASB) - has never been explained well and leads to confusion among reporters as well as duplication with foreseen IR content.

The most simply way of presenting the reporting "lay of the land" is the matrix that appears in the conclusion of the publication by Deloitte, USB et.al. (2012) Making Investment Grade: The Future of Corporate Reporting. It shows the complementary yet different roles of the IR and the SR, both being forward-looking and strategic but the IR with greater focus on (integrated) financial data considering its reader / target audience.

If this interrelation is more explicitly stated, the IR will succeed in being more concise and not having requirements such as "explain your materiality determination process" (already explained in the GRI-based SR) but rather just focus on the outcome / conclusions of the process.

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) Obvious ones would be GRI (incl its sector supplements), CDP, WBCSD and SASB. But be careful in how they are categorised (eg by sector, country, theme). Consider the way a listing of standards in the ISO 26000 Annex was done, a structure that also came out of an international, multistakeholder negotiation.

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?*

- a) Yes. But on omission the Framework needs to be more specific. It is hard to imagine an organisation concluding that one of the capitals is somehow "not material"... eg "Social Capital" is not material to our company? Do you imply that nothing related to eg Social Capital has happened in the last financial year / is likely to happen in the coming 1 - 3 - 10 years with significant financial consequences for our organisation? Should you not refer more specifically to some "aspects of a capital" that may not be considered "material" today?
- b) Does the target audience (providers of financial capital) not have implications for how impacts and dependencies on the six capitals are viewed? Should Financial Capital not have been presented in the centre / as middle leg among the other legs of the Octopus?
- c) While the GRI and other sustainability performance standards have much to say about the non-financial capitals, the IIRC Framework may well be more explicit about the Output side of Financial Capital. The text would benefit from explicitly listing the core financial value drivers: growth of sales, duration of sales, operating margin, investment in fixed capital, investment in working capital, cost of capital and tax rates (cf the 2013 Harvard Finance Working Paper Marc Bertoneche and I did on "the sustainability business case" and making the connect with the core financial value drivers). This would also help to better explain the "value" (albeit dependent on various Capitals) at stake here, expanding on the text in 2.45.

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?*

- a) Rather than seeking to be everything to everybody, should IIRC not be explicit that this "organisation" is a profit-driven and not a non-profit organisation? Which means that, to be focussed, there is an implied Value Proposition, Revenue Streams and Cost Structure – which leads to creating "financial value" – "but not only in the short term, also / rather (strategically) in the medium and long term"?

Business model (Section 2C) continued

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?*

Yes, but as stated be more explicit about the content of the Financial Capital at stake.

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)?*

a) What if an organisation has the "right" business model, but the "wrong" product? Some products are outdated, and by definition damaging to society. Can the IIRC Framework include a statement about this dilemma? Or you simply leave that call to informed investors and lenders?

b) For most organisations, business models don't change radically annually. Should IIRC acknowledge that in year-on-year reporting forthcoming IRs may simply repeat if no significant changes in business model has occurred during the last year?

Other

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

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?*

a) I agree with the key target audience (i.e. providers of debt and equity capital). The text refers to senior management, but it is not clear that this is (also) an assessment by the providers of financial capital as primary target audience / report users. It would be good if the Materiality Determination Process includes a statement on the participants in that process, and if providers of financial capital are the main participants.

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

- a) It would be good to streamline your process steps with (or at least refer to) the GRI materiality / content process steps. If essentially the same, why not simply refer users to that (the SR disclosure) and ask the IR simply to reflect the outcome?
- b) Please enable users to differentiate between (i) a multistakeholder process, and (ii) communicating its findings to only one stakeholder group (providers of financial capital). So you have an open process, but the IR extracts its results from a financial sector point of view.

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?

- a) It would be good to also reference the GRI principles of Balance and Accuracy here... that is part of what adds to reliability.
- b) Furthermore, reliability is also supported by the inclusiveness of stakeholders involved in a materiality determination process... as well as the inclusion of specifically the providers of financial capital in an expanded / further evolved step of the process.
- c) In as far as competition concerns and confidentiality will prevent reporters from disclosing strategic, forward-looking information related to the six capitals, assurance providers can at least verify and confirm that the due process has been followed.

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

- a) More explicit reference to the link with core financial value drivers (Financial Capital KPIs) will help to improve Comparability, in addition to encouraging use of recognised sustainability accounting standards such as the WRI/WBCSD GHG Protocol, Waterfootprint Network standard and related ISO standards.
- b) Also on Comparability, can you be more specific about timeframes - the meaning of short, medium and long term? (for major sector clusters stated - eg extractive industries, natural resource industries, manufacturing industries, service industries and infrastructure industries?)

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).

- a) The fact that your Content Elements ask more about the "how" that simply a description of structure (eg of governance) is to be welcomed.
- b) Would be good under "Performance" to add explicit reference to indicators as taken from the organisation's sustainability reporting system (eg as recommended by GRI).
- c) Would be good under "Future Outlook" to refer to relevant elements from the Disclosure on Management Approach (DMAs) as covered in GRI-based sustainability reporting by the organisation.

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?

Best would be a statement from the CEO about the "role of the highest governance body" in the reporting process, including those with special responsibilities - notably the CFO and CSO - for the IR.

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

Key is the role of the process and "integrated thinking" in helping reporting organisations / companies to bridge internal divides between different business units / departments and notably between Financial Accounting & Investor Relations and Corporate Sustainability. The collaboration between a CFO and a CSO needs to be explicitly recognised and encouraged.

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?

More practical may be assurance of specific components, eg (i) the materiality determination process (external players involved) and (ii) the role of internal, executive / senior managers in the governance of the reporting process / system. For the rest, eg financial and sustainability data, assurance is already provided elsewhere – for those (financial & sustainability) reporting systems. Avoid double / duplicative assurance, acknowledging that IR does not simply result in "One Report".

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?*

Key is to be focussed on your goal of facilitating reporting to the stated report user audience. Statements such as saying the the Framework can also be used by others (non-business) such as non-profit organisations is misleading and leads to loss of focus. IIRC is about the accountability and performance of commercially driven (incl state-owned) enterprises. Be clear about that.

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. The meaning of "value", "materiality" and "strategy" from the point of view of the IR target report user.
2. Appropriate time frames to work with, and how sustainability context (critical loads, planetary boundaries) is pressing for urgency (ref to key sector clusters).
3. Linkage between financial accounting and sustainability accounting standards, as well as between the IIRC Framework and GRI G4.

Other

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

Key is alignment or linkage between the requirements of IIRC's IR and GRI's G4. Reporters and users including regulators are getting more confused. Alignment has to be done to advance the efficiency and effectiveness in reporting practices that the recent Memorandum of Understanding between the IIRC and GRI refers to as common purpose. First steps in this direction could be:

1. Aligning the reporting principles of the two Frameworks, setting out and explaining how they differ yet complement;
2. Grouping GRI indicators, notably empirical ones, in terms of the six capitals of the IR, making it easier for users to consider where sustainability reporting data should feed into IR development;
3. Having mapped GRI indicators against the six capitals, consider what gaps remain and how related, commonly used indicators on e.g. manufactured and financial capital - found in annual financial statements - may fill these; and
4. Explaining difference and complementarity between the respective materiality and content determination processes, helping reporters to erase areas of duplication and ensure that IR content is really the shorter, concise content for a specific user group that is complemented by additional content for a broader stakeholder audience.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013