KPMG IFRG Limited
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0)20 7694 8871
Fax +44 (0)20 7694 8429
mark.vaessen@kpmg.co.uk

Professor Mervyn King
The International Integrated Reporting Council

Submitted via
www.theiirc.org/consultationdraft2013

Our ref MV/288
Contact Mark Vaessen

12 July 2013

Dear Professor King

Consultation Draft of the International <IR> Framework

We appreciate the opportunity to comment on the Consultation Draft of the International <IR> Framework. We have consulted with, and this letter represents the views of, the KPMG network.

Reporting needs to evolve in order to support better capital allocation decisions. We welcome the Draft International <IR> Framework (the Framework) as a significant step on the journey towards a market led solution to achieve this. We also acknowledge the ancillary benefits that 'Integrated Thinking' can bring to organisations in addition to the IIRC's reporting objectives.

The Framework has the potential to deliver more relevant information that can better support the capital markets' assessment of business value. Whilst the importance of financial and other forms of reporting remains, a broader perspective is required to achieve this. <IR> should not, therefore, be seen as a replacement for (or a simple combination of) financial, corporate social responsibility, or corporate governance reporting. It promotes a different form of business reporting focused on shareholder value that may be converged or combined with existing reports, and could in the longer term enable more concise reporting in the areas covered by those existing reports. It is important that <IR> contribute to reducing the overall reporting burden.

<IR> principles should be relevant to every organisation that prepares narrative reporting irrespective of whether they intend to produce a separate Integrated Report. Organisations producing reports other than for use by the capital markets could also benefit from adapting the Framework to meet the information needs of their specific audience.

Our response addresses both the role of the Framework in developing business reporting and also as a basis on which assurance could be provided if, as we expect, there is market demand for this. It is important from both of these perspectives that the final version of the Framework is sufficiently clear that it can be interpreted consistently by preparers, users, and providers of assurance in any given set of circumstances.

We consider that the ultimate test of success for the IIRC's work would be whether it influences investor decision making. To achieve this, <IR> will need to support the provision of information that can directly inform the assumptions, judgements and estimates that underpin investor decision making in relation to the short, medium, and long term prospects of the business.

We believe that the IIRC's engagement with the mainstream institutional investors is of particular importance to ensure that the Framework meets their needs and that they recognise and support the business case for <IR>. At these early stages of gaining experience with the Framework, a market led solution is most likely to produce reporting improvements that are genuinely relevant to investors. In our view, regulators can play an important role in facilitating, rather than legislating, innovation in corporate reporting, in particular by removing any regulatory barriers that currently exist to the further development of <IR> in practice.

Below we have highlighted five areas which we believe are essential in order for the Framework to influence investor decision making. Our responses to the specific questions posed in the Consultation Document are attached as an appendix to this letter.

1. **The approach taken by the IIRC is capable of providing the detailed information needed to support better investor decision making.**

   If the Framework is applied effectively, we believe that <IR> could contribute three essential features to the quality of understanding that the capital markets can derive from business reporting:

   i. **A better explanation of the key resources ('capitals') on which the business depends** that covers the full value of the resources used in the business model; explains how these resources have been developed; and provides a basis for understanding the strategic advantage that they give the business.

   ii. **A more comprehensive view of operating performance** that provides a basis for understanding the ongoing capacity of the business to generate value; how the productive capacity of the business has been enhanced; and the progress made in implementing strategy and managing risk.

   iii. **A better basis for understanding the future outlook of the business** - the future developments that are expected to re-shape the business; the parts of the business that are potentially affected; and how the business's ability to generate returns might be affected.

   We support the principles-based approach adopted by the IIRC and in particular believe that basing an Integrated Report around an organisation's business model, strategy, and operating environment should provide a basis for producing relevant information on a consistent basis over time and across companies with similar business models. The concept of connectivity of reporting across content elements provides a powerful basis from which detailed disclosures specific for each business can be derived from a principles-based framework without the need for a checklist of disclosures.

2. The Framework has the potential to improve many aspects of business performance reporting – its benefits should not be restricted to the communication of corporate social responsibility matters.

We believe the IIRC needs to be clearer on the breadth of ambition it has for <IR>. At present it is still seen by many as the combination of corporate social responsibility reporting with financial reporting. <IR> has a role to play in helping organisations present information that enables investors to make a better assessment of how shareholder value is affected by corporate social responsibility factors - but this is as a part of its wider objective rather than as a specific objective to extend reporting of such information other than for investors.

If report preparers approach <IR> from a narrow perspective, it will not provide investors with a complete and connected picture of business value and may well provide information which would not be wholly consistent with <IR> principles.

> Recommendation:
>
> Whilst this issue is largely a matter of public perception, we encourage the IIRC to assess how language and illustrations in the Framework would be interpreted by a preparer approaching <IR> from a corporate social responsibility perspective. It is important that the Framework is unambiguously inclusive of all aspects of business performance that are relevant to an assessment of the intrinsic value of the business to an investor.

We consider that two areas in particular – 'value' and 'reporting boundary' are likely to be interpreted differently depending on whether or not the reader of the Framework approaches it from a corporate social responsibility reporting perspective.

> Recommendation:
>
> i) The Framework should distinguish between reporting on matters affecting shareholder value (as represented by the value of future returns the business is expected to generate), and reporting on stakeholder value creation. Information on stakeholder value creation should be relevant in an Integrated Report to the extent that it enables report users to assess the ability of the business to sustain and create shareholder value.
>
> ii) The value of including a definition of reporting boundary in the Framework should be reconsidered – a matter should be reported on if it is reasonably expected to affect the ability of the business to generate future returns irrespective of whether that matter is internal or external to the business.

3. We welcome the progress made in developing the Framework but believe further clarification is needed to ensure that it will be consistently applied by report preparers in a way that meets investor needs most effectively.

We support the broader perspective on the business that an Integrated Report provides, in particular the additional focus it brings on current and future operational performance. However, care is needed to ensure that the Framework does not create a shopping list of issues or disclosures that are not material to an assessment of shareholder value by providers of financial capital. To achieve the twin goals of conciseness and investor relevance we believe the information *required* to be included in an Integrated Report should be limited to matters relating to the judgements that would be incorporated into an investor's assessment of the intrinsic value of the business.

> Recommendation:
>
> The definition of materiality should provide explicit guidance that an Integrated Report is only required to address issues and disclosures (whether financial or non-financial) that would reasonably be expected to influence an investor's assessment of the intrinsic value of the business (the intrinsic value being represented by the discounted value of the future returns that the business is expected to generate).

In order to make an effective contribution to capital markets decision making, an Integrated Report needs both to address the right issues and provide information that can be incorporated into the decision making process. We expect that most preparers will find this latter point particularly challenging and would benefit from guidance on meeting the information requirements of the Framework.

> Recommendation:
>
> Recognising that the IIRC's purpose is not to provide checklists of industry performance measures, non-prescriptive guidance should be provided over the different types of quantitative disclosures to be included in an Integrated Report, recognising the different objectives that individual disclosures need to fulfil in order to meet the reader's needs.
>
> For example quantitative disclosures that provide information in relation to:
>
> - Context disclosures that provide detail on the business model in order that report users can assess what part of the business is potentially affected by a particular issue – such as the identification of recurring and non-recurring customer contracts
> - Risk indicators that enable report users to understand the extent to which significant but potentially remote issues are being managed – such as the retention of key staff
> - Progress indicators that demonstrate the extent to which the business strategy and plans have been implemented – such as progress in expanding the business presence or customer base into new markets
> - Reward indicators (covering both financial and operational outcomes) that demonstrate the impact that an issue or action is having on business outcomes that drive future shareholder returns – such as customer acquisition or key market revenues.
> - And, where necessary, alternative narrative disclosures where quantitative disclosures are not considered appropriate

The capitals model adopted by the IIRC is an important tool in ensuring that reports provide a complete picture of value. However, the relevance of each capital to the future performance of the business will differ significantly even for superficially similar businesses. In this context, it is important that reporting on the six capitals is not seen as an end in its own right - this would create an unnecessary burden and undermine report preparers' focus on meeting readers' needs. It should be clear from the description of the business model, operating context, and strategy which capitals are material to an assessment of an organisation's ability to create value and hence future business returns.

Recommendation: Additional clarification should be added to the Framework so that it is clear that reports are only required to address aspects of the capitals that are material to an assessment of shareholder value based on the intrinsic value of the business to an investor. This clarification should also apply to the identification and discussion of related stakeholder issues.

Information in an investor-focused Integrated Report will also be of interest to other stakeholders. However, some users of the Framework may want to prepare reports specifically for the use of a particular stakeholder audience. To address this circumstance, it would be helpful to provide additional guidance as different materiality considerations and information needs will apply for different reporting objectives. This guidance would be best provided outside of the Framework (for example as a supplement) in order that the Framework itself remains focused on satisfying the needs of investors as the primary audience for <IR>.

4. **Whilst projections of operating and financial performance can provide useful information for investors, care is required to ensure that the responsibility for judgements over the future performance of the business is not transferred from the investor to management.**

We welcome the Framework's focus on producing a forward looking report but believe that the emphasis should be on providing information that enables report users *to form their own views* on the future prospects of the business. In a business environment where many aspects of performance are outside of management's direct control, we expect that objective sensitivity analysis will be of more value to report users than high level management projections which may be based on assumptions that the reader does not agree with or have sight of.

Recommendation: References to reporting projected performance should be amended to 'targeted performance', and should also make it clear that this is just one means of providing report users with an understanding of future performance – and other disclosures, including sensitivity analysis, that enable the reader to form their own views on future performance will often provide more relevant information. Where targeted performance information is provided, the principal assumptions on which the targets have been derived and the basis on which the business hopes to achieve them should be clearly set out.

5. **We expect there will be market demand for assurance over an Integrated Report since enhancing the credibility of the information would be of value to investors. We believe that assurance could be provided over an Integrated Report provided that the suitability of criteria is established.**

As investors increasingly come to rely on the additional information provided in an Integrated Report we expect that there will be demand for assurance over specific matters in a report or the report as a whole. We believe that assurance could be provided as long as the suitability of criteria in the Framework is established. In considering whether the framework actually provides suitable criteria we recommend the IIRC liaise with the IAASB. We believe that assurance provided over an Integrated Report as a whole will provide most value to report users, though this may be seen as a longer term objective until the Framework is being consistently interpreted and applied. We have noted areas where the Framework would benefit from additional clarity to support consistent application by report preparers. The areas where the Framework needs to evolve to support meaningful assurance are similar and are set out in our response to question 20. In the short term, assurance over specific aspects or disclosures in a report may be more readily achievable, for example, the material risk and performance indicators that we identify in our response to question 16.

We would welcome the opportunity to discuss any of the matters raised in our response with you. If you have any questions then please contact Mark Vaessen (email: mark.vaessen@kpmg.co.uk or by phone at +44 (0)20 7694 8871).

Yours sincerely

KPMG IFRG Limited

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Appendix 1

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.

In responding to specific questions on the Consultation Draft, we have identified a number of aspects of the principles-based requirements that need to be addressed. For completeness we have summarised these below:

- The stakeholder responsiveness principle (3C) should instead be expressed in terms of reporting on the development and protection of the capitals. *(see our response to question 15)*
- The concept of connectivity across the content elements should be given greater emphasis in section 3B as a means of ensuring completeness in an Integrated Report. *(see our response to question 14)*
- Balance is an important consideration in an <IR> and should be included as a principle in its own right. *(see our response to questions 12 and 14)*
- Conciseness (para 3.29) should not override other reporting principles such as materiality. It should therefore be either included as a secondary aim, rather than a separate principle, or alternatively the principle should be clarified to ensure it is clear that it refers to the elimination of unnecessary (immaterial) detail rather the overall length of the report. *(see our response to question 12)*

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 (paragraph 1.18-1.20).

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

We agree with this characterisation. Attempting to duplicate content already covered by other standards will undermine the benefits of the IIRC's principles-based approach.

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?

We do not believe that a database is required in respect of mainstream reporting standards – such as GAAP. The role of an Integrated Report should be to build on available information to communicate the organisation's value creation story. The choice of reporting basis for this information is less important provided its basis of preparation is clearly understood (for example by reference to established practice or a recognised framework), and the information is presented in a way that enables the organisation's story to be understood. The IIRC should therefore remain neutral on the question of specific reporting standards to be applied to information included in an Integrated Report.

We do agree that there may be value in the IIRC developing a resource of reporting bases in areas that do not have established reporting standards, particularly with regard to operational performance reporting (such as the creation of intellectual capital, and the management of human capital). However it is important that these reporting bases are presented as the starting point for providing relevant information in an Integrated Report rather than a solution in their own right.

Other

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

No further comments.

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?

Role of the capitals

We agree with the overall approach and believe that an understanding of the role different capitals play in a business is essential to an understanding of its ability to create and sustain shareholder value.

However, in our experience the significance of the capitals in an investor focused report is not always understood by report preparers. Therefore, whilst we do not disagree with the overall content of section 2B, we believe that more emphasis is required on the role the capitals play as resources controlled by the business to generate future cash flows, rather than as assets in their own right.

Purpose of the capitals

The relevance of each capital to the future performance of the business will differ significantly even for superficially similar businesses. In this context, it is important that reporting on the six capitals is not seen as an end in its own right - this would create an unnecessary burden and undermine report preparers' focus on meeting readers' needs. It should be clear from the description of the business model, operating context, and strategy which capitals are material to an assessment of an organisation's ability to create value and hence future business returns – inactive capitals that are not expected to be utilised should not ordinarily have a material value.

The Framework would benefit from clarification that reports are only required to address aspects of the capitals that are material to an assessment of shareholder value based on the intrinsic value of the business to an investor. This clarification should also apply to the identification and discussion of related stakeholder issues.

We do not believe that organisations should be required to identify matters which they consider to be immaterial with regard to either the capitals (as specified in para 4.5) or any other aspects of the report. This requirement is likely to result in boilerplate disclosures which undermine the focus of <IR> and is not consistent with the approach described in para 2.29.

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

No further comments.

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?

We agree with this definition. However, we note that several matters specified for inclusion in a description of the Organisational Overview (para 4.7), for example, principal activities and competitive landscape are fundamental to an understanding of the business model. It would be preferable to address Organisational Overview and Business Model as a single content element. For completeness, this could also incorporate the information requirements specified in section 2C.

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?

We agree with this definition and believe it provides a good basis from which to understand how the ability of the business to create shareholder value has been developed and protected over the period. It would be helpful to emphasise the relevance of materiality here to be clear that only outcomes that are expected to have a material impact on shareholder value should be addressed in order to reduce the risk that report preparers focus unduly on immaterial external outcomes.

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 (Section 4E)

The description of the business model should provide an important reference point in an Integrated Report, providing the report user with context to interpret the potential impact of matters raised throughout the report. In order to achieve this, the Framework should require that:

- Sufficient detail is provided to enable the report user to understand the relative importance of each group of resources ('the capitals') and activities to the value of the business.

- Components of the business model are described with sufficient granularity that they can provide context for matters raised elsewhere in the report, under other reporting content elements. For example, if management describes a strategy to grow a particular part of the business, that part should be identifiable from the description of the business model.

We agree that in some cases it may be necessary to present segmental business models (*paragraph 4.24 - 4.25*) but emphasise the importance of demonstrating synergies between the businesses other than when the collection of businesses are managed on a portfolio basis independently of each other. These synergies should be apparent from the rationale for holding the particular combination of businesses.

Other

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

Value

In our experience, a key source of confusion over the application of the Framework derives from different interpretations of how the meaning of 'value' should be applied in an Integrated Report.

The concept of value is addressed in section 2D. To achieve greater clarity, a clear distinction should be drawn between reporting on matters affecting shareholder value (as represented by the value of future returns the business is expected to generate), and reporting on stakeholder value creation. Information on stakeholder value creation may be relevant in an Integrated Report to the extent that it enables report users to assess the ability of the business to create shareholder value, but otherwise may not be relevant. On the other hand, we would expect that high quality descriptions of the business model would nevertheless enable report users to form their own views of "external outcomes" even if these are not relevant (and therefore not articulated) in an Integrated Report.

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?

Given that an Integrated Report is intended as an investor focused report, we believe the information *required* to be included in an Integrated Report should be limited to matters relating to the judgements that would be incorporated into an investor's assessment of the intrinsic value of the business.

The definition of materiality should provide explicit guidance that an Integrated Report is only required to address issues and disclosures (whether financial or non-financial) that would reasonably be expected to influence an investor's assessment of the intrinsic value of the business (that intrinsic value being represented by the discounted value of the future returns that the business is expected to generate).

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

Whilst we agree that conciseness is an important objective for <IR>, we do not believe that this should be achieved by the omission of material information from the report. Therefore, we do not agree that organisations should 'seek a balance between conciseness and the other Guiding Principles' (para 3.29). We suggest that either the conciseness principle is removed or it is clarified that it refers to the elimination of unnecessary (immaterial) detail rather the overall length of the report.

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 implementation of <IR> will be challenging for most organisations. It will require the disclosure of information from sources that have not traditionally been subject to the same level of internal control as information processed within established financial reporting systems. Additionally, it will require the adaptation of data from underlying systems, and in some cases, external sources, in order to provide information that is relevant to the specific matter being discussed.

In this context, and as companies' implementation of <IR> evolves, we believe that it is important to ensure that limitations and assumptions in the information being presented are clearly expressed so that users can apply their judgement over the reliability of information contained in the report.

In many jurisdictions, it will already be a requirement or an established principle that an organisation should establish procedures to ensure that information communicated externally is not misleading. This will (or should) therefore extend to the information in an Integrated Report, and we believe those charged with governance in an organisation should have responsibility for ensuring this to be the case and ensuring that, where there is doubt as to the completeness or accuracy of the information, this (and the reasons as to why) are also communicated: we believe this is adequately addressed in the Framework at paragraph 5.17. We do not believe it is necessary to say how this should be achieved as this will be a matter for individual organisations to determine.

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

Balance

Balance is particularly important in an <IR>. We believe that the guidance included in paragraphs 3.33-3.34 should be incorporated as a separate guiding principle.

Completeness

We believe guidance on completeness is best addressed by emphasising the role that connectivity should play in ensuring material matters identified in one content element are followed through across the report. Hence:

- Report preparers should assess the interaction of their Business Model with their Operating Environment, Risks and Opportunities and explain those matters that could materially affect the Business Model in the short, medium, and long term.
- The descriptions of Strategy should address material proposed changes to the Business Model and management's planned response to material developments in the business's Operating Environment.
- Performance descriptions and measures should address (i) delivering on the objectives described in the Business Model and Strategy (reward indicators); (ii) managing the risks arising from their Operating Context (risk indicators); and (iii) progress in delivering on their Strategy (performance indicators).
- Descriptions of Future Outlook should address the same overall areas identified in the Performance reporting (but not in the same detail); and descriptions of Governance should align with their Business Model, Strategy, and interaction with the operating environment.

Commercial sensitivity

The commercial sensitivity exemptions in paragraphs 3.42 to 3.45 are quite widely drawn. We believe that there should be a higher hurdle for omitting disclosures in an Integrated Report - i.e. disclosures should only be omitted if they cause a significant commercial disadvantage.

In our experience the information required to support investor decision making can often be different from that which would benefit a competitor. Therefore, where disclosures are omitted, the Framework should promote the inclusion of alternative information that could support report user's decision making without creating significant commercial prejudice.

Other

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

Stakeholder responsiveness

Whilst we agree that engagement with other stakeholders can play an important role in identifying matters relevant to an Integrated Report, we are concerned that the drafting of section 3C implies stakeholder responsiveness is an objective in its own right (paragraphs 3.16 to 3.17) rather than a means to explaining the capacity of the business to generate shareholder value. This could undermine the focus of Integrated Reports.

We therefore suggest that this principle is redrafted to emphasise how stakeholder engagement can help to explain the extent to which access to and availability of the capitals on which the business depends has been developed and protected. This could be achieved by focusing on the concepts described in section 2B ('The capitals') and the objectives of an Integrated Report (paragraphs 1.5-1.8). We expect that information provided in accordance with this approach would still be relevant to other key stakeholders.

Connectivity across the content elements

We have emphasised the importance of connectivity across the content elements in our response to question 14 – each content element should respond to matters raised in the others. In order to support better understanding of how this applies in the Framework, we suggest that the content elements should be re-ordered to reflect a more natural flow of information in an Integrated Report – for example: Business model, External environment, Opportunities and risks, Strategy, Performance, Future outlook, and Governance.

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).

Reporting on performance

In order to make an effective contribution to capital markets decision making, an Integrated Report needs both to address the right issues and provide information that can be incorporated into the decision making process. We expect that most preparers will find this latter point particularly challenging and would benefit from guidance on meeting the information requirements of the Framework.

Recognising that the IIRC's purpose is not to provide checklists of industry performance measures, we believe that non-prescriptive guidance should be provided over the different types of quantitative disclosures to be included in an Integrated Report, recognising the different objectives that individual disclosures need to fulfil in order to meet the report user's needs .

For example quantitative disclosures that provide additional information in relation to:

- Context disclosures that provide detail on the business model in order that report users can assess what part of the business is potentially affected by a particular issue – such as the identification of recurring and non-recurring customer contracts
- Risk indicators that enable report users to understand the extent to which significant but potentially remote issues are being managed – such as the retention of key staff
- Progress indicators that demonstrate the extent to which the business strategy and plans have been implemented – such as progress in expanding the business presence or customer base into new markets
- Reward indicators (covering both financial and operational outcomes) that demonstrate the impact that an issue or action is having on business outcomes that drive future shareholder returns – such as customer acquisition or key market revenues, and
- Where necessary, alternative narrative disclosures where quantitative disclosures are not considered appropriate.

These measures support the identification of both leading (future outlook) and lagging (current performance) indicators.

Future outlook

Whilst projections of operating and financial performance can provide useful information for investors, care is required to ensure that the responsibility for judgements over the future performance of the business is not transferred from the investor to management.

We welcome the Framework's focus on producing a forward looking report but believe that the emphasis should be on providing information that enables report users *to form their own views* on the future prospects of the business. In a business environment where many aspects of performance are outside of management's direct control, we expect that objective sensitivity analysis will be of more value to report users than high level management projections which may be based on assumptions that the report user does not agree with or have sight of.

In addition, projections will typically cover only a relatively short time frame. We believe that articulation of longer term targets would generally be preferable to a focus on "projections". The strategy should provide the articulation as to how the organisation intends to achieve the targets that it communicates. References to reporting projected performance should therefore be amended to 'targeted performance', and should also make it clear that this is just one means of providing report users with an understanding of future performance – and other disclosures, including sensitivity analysis, that enable the report user to form their own views on future performance will often provide more relevant information. Where targeted performance information is provided, the principal assumptions on which the targets have been derived and the basis on which the business hopes to achieve them should be clearly set out.

Additional disclosure requirements

We do not believe that all the additional disclosure requirements in para 4.5 are necessary, and may in fact confuse report preparers. Specifically:

- Reporting boundary should not be relevant in an investor focused report *(see our response to question 21).*
- The disclosure of material trade-offs should form part of the description of the Business Model, and rather than have a separate disclosure requirement this should be emphasised within section 4E dealing with the Business Model.
- The requirement to disclose immaterial information on the capitals is not consistent with the materiality principle – though organisations may need to provide some additional information where the relevance of a particular capital to shareholder value is ambiguous *(see our response to question 5).*

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?

<IR> has the potential to play a central role in supporting the stewardship relationship between management and the owners of an organisation. We agree with the requirement to explain responsibility for the report as we believe it will help to emphasise this role. However, we note that the allocation of responsibility to an organisation's governing body for its corporate reporting will generally be addressed by local legal or regulatory requirements which may vary across jurisdictions.

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

No further comments.

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 believe that assurance provided over an Integrated Report as a whole will provide most value to report users, though this may be seen as a long term objective until the Framework is being consistently interpreted and applied. In the short term, assurance over specific aspects or disclosures in a report may be more readily achievable, for example, the material risk and performance indicators that we identify in our response to question 16.

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.

We expect that there will be market demand for assurance over an Integrated Report since enhancing the credibility of the information would be of value to investors. We believe that assurance could be provided – as long as the suitability of criteria in the Framework is established. Given that suitable criteria are key to an assurance engagement, it is important that the IIRC liaises with the IAASB to consider whether the framework actually provides suitable criteria.

There may be demand for assurance over specific matters in a report or the report as a whole. However, we believe that assurance provided over an Integrated Report as a whole will provide most value to report users, though this should be seen as a longer term objective until the Framework is being consistently interpreted and applied.

As noted in our response to question 19, in the short term, assurance over specific aspects or disclosures in a report may be more readily achievable. We have noted a number of areas in our response where the Framework would benefit from additional clarity to support report preparers. The areas required to support meaningful assurance over a whole report are similar and may include:

- Additional detail on the basis for determining materiality *(see our response to question 11)*.
- Explicit emphasis on the role that connectivity plays in determining disclosures across the content elements *(see our response to question 15)*.
- Clarification over the role that the capitals, value, and stakeholder responsiveness should play in determining report content – i.e. whether they are a means to identifying information to support investor decision making or a reporting objective in their own right *(see our response to questions 10 and 15)*.

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).

We believe that the definition of reporting boundary may unnecessarily confuse report preparers. In an investor focused report, the approach can be simplified – a matter should be reported on if it is reasonably expected to affect the ability of the business to generate future returns irrespective of whether that matter is internal or external to the business.

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?

The approach taken by the IIRC is capable of providing the detailed information needed to support better investor decision making.

If the Framework is applied effectively, we believe that <IR> could contribute three essential features to the quality of understanding that the capital markets can derive from business reporting:

1. A better explanation of the key resources ('capitals') on which the business depends that covers the full value of the resources that the business controls; explains how these resources have been developed; and provides a basis for understanding the strategic advantage that they give the business.
2. A more comprehensive view of operating performance that provides a basis for understanding the ongoing capacity of the business to generate value; how the productive capacity of the business has been enhanced; and the progress made in implementing strategy and managing risk.
3. A better basis for understanding the future outlook of the business - the future developments that are expected to reshape the business; the parts of the business that are potentially affected; and how the business's ability to generate returns might be affected.

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?

We have already noted the relevance of <IR> to companies' existing narrative reporting, irrespective of whether they are producing an Integrated Report. The IIRC should consider extending the scope of the Framework to cover this situation.

In the future, the IIRC may wish to develop guidance on the provision of <IR> information on an ongoing basis, and the application of <IR> to other communication channels such as investor presentations.

In the short term, we believe *principles-based* guidance on identifying relevant performance measures and communicating future outlook would be of most benefit to report preparers, and would be particularly important in ensuring that the information provided in an Integrated Report can support investor decision making *(see our response to question 16)*.

In developing this guidance, we believe it is important that the IIRC should ensure that it supports rather than stifles reporting innovation in this area as report preparers themselves are best placed to identify the information needed to communicate their business story most effectively.

Other

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

The Framework has the potential to improve many aspects of business performance reporting – its benefits should not be restricted to the communication of corporate social responsibility matters.

We believe the IIRC needs to be clearer on the breadth of ambition it has for <IR>. At present it is still seen by many as the combination of corporate social responsibility reporting with financial reporting. <IR> has a role to play in helping organisations present information that enables investors to make a better assessment of how shareholder value is affected by corporate social responsibility factors - but this is as a part of its wider objective to extend reporting of such information other than for investors.

If report preparers approach <IR> from a narrow perspective, it will not provide investors with a complete picture of shareholder value in the business and may well provide information which would not meet <IR> principles.

Whilst this issue is largely a matter of public perception, we encourage the IIRC to assess how language and illustrations in the Framework would be interpreted by a preparer approaching <IR> from a corporate social responsibility perspective. It is important that the Framework is unambiguously inclusive of all aspects of business performance that are relevant to an assessment of the intrinsic value of the business to an investor.