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: | Report preparers

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

Organization name: | Vancity

Industry sector: | Financials

Geographical region: | North America

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.

VALUE

The effectiveness of the framework hinges on how value is defined, and this is not clear. The way the framework is written, it is possible to interpret value as financial value, given a long enough time-frame. Value is not even defined in the glossary. Defining value in its broadest sense is an opportunity for the IIRC to drive change and demonstrate leadership. In the absence of a clear definition, then the framework should make a requirement that the organization articulates how it defines value, and value to whom.

We would like to see the document emphasize:

- The belief that organisations can: "create and maximise value by serving the interests of and working with its key stakeholders"

- That value creation is a broad term that includes not only financial returns to providers of financial capital but also positive and negative effects on, and the inter-relationship

between, resources and relationships.

REQUIREMENTS vs APPLICATION GUIDANCE

Consider two documents - one that sticks to what is required to be in accordance with the IR framework, and a separate document for "Application Guidance" eg. examples, things an organziation might want to consider, approaches the organization might want to take.

MATURITY MODELS FOR IR

For financial processes and controls, there are maturity models that an organization can evaluate against (basic, developing, defined, advance, leading). IR is a journey and this doesn't come across in the Framework. It would be useful to have a tool or checklist for organizations to map/self-assess their degree of maturity with respect to integrated thinking (and reporting). This could also help address the issues around defining value that we noted above, eg. as an organization evolves towards integrated thinking, it adopts systems and processes that support a broader, more stakeholder inclusive, and longer-term view of value creation.

The framework needs to be sufficiently flexible to be applied by organizations who are focused on creating positive social, environmental and economic value (or impact) with the belief that this approach will generate sustainable financial returns. These types of organizations should - by applying the framework - be able to clearly differentiate themselves from organizations who are, for example, focused on risk management by minimizing their negative impacts. It may be the framework already allow for such differentiation, but it won't be apparent until a variety of organizations with a variety of purposes have applied it.

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.*

It is unclear why the principle of stakeholder inclusivity has been dropped. The Framework itself speaks to an inclusive approach to stakeholder engagement, so why has this extremely important principle dropped? We would like to see it added back (Stakeholder inclusivity and responsiveness). Failing that, I would like to understand the rational for why it was removed.

Otherwise, the principles are excellent and will drive improvements in management and reporting practices.

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?*

Yes. Para 1.18: Keep the words "may provide additional communications". It is important to allow the organization to determine how many and what type of additional reports it needs (f any)in order to satisfy the information needs of multiple 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?*

• CICA: Management's Discussion and Analysis: Guidance on Preparation and Disclosure (Canada)

• International Financial Reporting Standards

• Global Reporting Initiative sustainability reporting guidelines

• SASB - issues and indicators by sector (USA)

• Public Accountability Statement reporting requirements (Canadian Financial Institutions)

- Carbon and Water Disclosure Projects

- UNPRI

We recommend the database be searchable by country, region and industry. (Such a database would require frequent updating as standards evolve.)

Other

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

Audience for <IR> para 1.6: Keep the phrase "primarily for providers of financial capital" as it makes the framework sufficiently flexible for use by co-operatives and implies the integrated report can also benefit other stakeholders interested in the organisation's ability to create value over time.

The Framework should require an organization to clearly state who other primary audience(s) of the report is/are, if beyond providers of financial capital.

Para 1.10: The language needs to be more inclusive. Public sector and not for profits are not the only types of other organizations to use the framework. Suggest wording is changed to: ;"...can also be applied, adapted as necessary, by other organizations such as public sector, not for profit organizations, charitable organizations and co-operatives".

Integrated Thinking paras 1.15-1.17: These are very important concepts. It is critical to get management thinking about integration beyond reporting. Keep, and consider making this part stand out more.

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?

Partly. The capitals approach is one approach of several that an organization may choose to take. It is important that report reflects how the organization is managed, and that this management approach is disclosed or made apparent through disclosure on the business model and other content elements. An organization should not 'be forced' to use these categories in an internal benchmarking activity, or to use these categories in external reporting. We'd like to see the language of 'resources and relationships' used as this is appropriately generic, with the capitals positioned as the preferred (but not only) framework to consider these.

Para 2.12: Keep the phrase "this categorization is not required" per comments above

Para 2.2.1: This should not be a requirement, per comments above.

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

Paras 2.13 & 2.14: The inclusion examples in these paragraphs is helpful. However this type of content might be better off win a separate section or document on "application guidelines" - see overall comments above.

Para 2.16: "whether the net effect is an increase or decrease will depend on the perspective chosen" . This is a potentially loaded statement. Should an organization disclose when different stakeholders or providers of capital have different views than the organization or each other, where known? Or is the intent to disclose the organization viewpoint only ("in the eyes of management") and let others decide if they agree?

Keep the diagram on page 13.

Para 2.24: Keep, it is important to acknowledging the importance of narrative information. Not everything needs to be or should be monetized.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7.   Do you agree with this definition? Why/why not?

Yes. It is sufficiently broad and high-level to allow organizations the flexibility to report their business model in the way that makes sense to them, and that reflects how they talk about it and communicate it internally.

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. It might be worthwhile using the language of "outcomes and impact" here to align with the GRI's focus on organizational impact. We have concerns that the IR's focus on 'Value Creation' vs. organizational impact does not place enough emphasis on accountability. Using the language of impact and then linking impact to value creation (per bullets in para 2.35) could help.

It is important to include desired outcomes (and impact) within the business model.

However, when reporting outcomes/impacts it may be difficult to attribute specific outcomes and impact to the organization alone.

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)?

Para 2.28 : Examples of how inputs link to the capitals are helpful, however perhaps they would be better placed within an "Application Guidance" document.

Other

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

Para 2.38: "Providers of financial capital are focused on value in the form of financial returns." If you state this, then this could imply that IR ultimately defines value as financial returns because providers of capital are the primary audience of IR. As a co-operative, our members (who are our providers of financial capital) look for value beyond financial returns. Delete first sentence and reword paragraph to start with "Financial returns are, however…"

Para 2.41-2.44: "The meaning of value" Remove - it is repetitive and does not add value (!)

Para 2.43: Clarify what is meant by "IR takes account of the extent to which effects on the capitals are externalized". What is the expectation here?

Para 2.45: The commentary on value drivers feels out of place. Perhaps it would be a better fit as part of strategy disclosure.

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?

Para 3.23: A matter is material if it could substantively influence the assessments of the organization's ability to create value. Change the wording to include "its omission or misstatement" could substantively influence the assessments of the organization's ability to create value" (to align financial definition and AA1000).

IR allows senior management and the board to determine if a matter is material or not. This could lead to aspects stakeholders deem as material being dismissed and undisclosed. We would prefer a process that requires organizations to include material issues raised by stakeholders whether deemed material by management or not, and if not, to include an explanation of why management does not perceive it to be material. If an organization has not considered stakeholders beyond providers of financial capital in its materiality determination process, this should be clearly articulated.

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

Reporters need clarity on how materiality as defined by the IR Framework relates to materiality as defined by the GRI. (We prefer the broader GRI definition of materiality). Obviously an organization only wants to apply one definition and have one materiality process in place. It seems probable that one materiality process could potentially meet both GRI and IR requirements, but this is not clear.

Further to our comments under #11., a fundamental principle of sustainability reporting is to report on material issues identified by both the business and stakeholders. To place the emphasis on only material issues relevant to providers of capital feels like a step backwards. This relies on providers of capital understanding what creates value and taking a broad and long term perspective. A stakeholder-inclusive approach to materiality is important to continue to educate and inform investors; it also allows organization to be proactive in attracting the type of investors it wants, rather than being led by them.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

We would appreciate more guidance on 'robust internal reporting systems' (in separate documentation on Application Guidance) or external references, see below. Adequate processes, controls and dedicated resources are key. Organizations should strive to apply the same rigour to non-financial data and information as for financial data and information.

External resources: ISO? COSO Internal Controls Integrated Framework? SOX?

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

Other

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

Para 3.30: Important to keep this; it concisely captures the need for balanced reporting.

Para 3.11:

-Second bullet: Delete "especially as it relates to future cash flows", not necessary.

-Third bullet - keep, important.Fourth bullet - keep, important (and in fact we would like to see this concept elevated/be emphasized more).

3C Stakeholder responsiveness: It's not clear why the word "inclusiveness" was removed from this heading; we would prefer it be added back.

Para 3.52: Add a requirement for organizations to disclose methodologies where the organizations deviate from standardized definitions or where the methodology used is not clear.

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).

Para 4.20: In the last bullet, change stakeholder "consultation" to "engagement" as this is a broader term.

4D Strategy and Resource Allocation: provide guidance on what a "resource allocation plan" includes at a minimum.

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?

Not yet. Robust systems and controls are not mature enough. As integrated reporting matures, the IIRC may want to consider making this mandatory.

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

More guidance/expectations on the role of senior management versus governing bodies would be helpful.

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?*

The type, scope and level of assurance should be appropriate for the organization and its primary report users.

Ideally, assurance should cover the whole report with respect to ensuring the principles are met and that the 'right information' is included -- eg. assurance should go beyond the reliability of specific data and information.

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).*

5I and Para 1.18: Organizations are beginning to experimenting with more dynamic, real-time, searchable, customizable and interactive reporting eg. quarterly performance updates and real-time reporting on significant events and issues. The interactive nature also enables ongoing stakeholder engagement. A stand-alone integrated report prepared annually is not consistent with such a dynamic approach. Is this a requirement, or just a suggestion? Are there requirements when it comes to preparing and communicating an IR eg. the information that comprises the IR must be downloadable as one PDF?

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 believe the IR Framework is a good start and has the potential to drive integrated thinking among organizations. IR is an evolutionary process and organizations should be encouraged to disclose the areas they are still working on.

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?

Linking financial and non-financial data and information (methodologies, metrics etc)

Building robust internal reporting systems

Assurance of integrated reports

Other

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

List all the principles-based requirements and required content elements (identified throughout the Framework in bold italic type) together on page.