

## 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.

#### Proliferation of corporate reporting

\_ It is suggested that the integrated reporting process should be applied to all relevant reports and to the whole communication, including the analysts' reports. What is meant in this case by integrated approach? Given that analysts' reports are quarterly it could be useful to further explain this point in order to avoid the danger of rendering too demanding this communication and reducing its adoption.

\_ The IR must not be just another report; in this case the costs and inefficiencies generated from a further reporting activity add up to those already sustained for drawing up other reports may lead to a reduction in IR adoption. "The challenge of the multinational companies is to integrate financial and non-financial information in order to avoid the proliferation of data affecting transparency of reporting. Many companies have been working so far towards this direction, to include ESG factors and CSR Policies in their Annual Reports and in their communications to investors.

Having said that, the paragraph 1.18 states that the IR is “another report”. This could be a huge “step back” and moreover is moving to the opposite direction respect to where, through the efforts towards integration, companies are currently going and what the investors are expecting from them, when they ask for ESG information. Integrated Report should simplify the access to significant information, providing companies with a useful framework that could enable us to put just in one report financial and non-financial information, now included in the Annual Report and in the Sustainability Report. Also this seems go far from the upcoming EU Directive amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non-financial and diversity information.”

#### Local requirement

\_ Its global nature clashes with reporting local requirements, leading to compromised solutions. A clear reference to the fact that the framework is hierarchically subordinate to local regulations should be included, so that preparers do not see it as an obstacle to the IR preparation.

#### Target

\_ It is not clear whether the target of the reporting are the investors or all stakeholders. Our position is that investors are the focused addressees of IR.

\_ Particular relevance is given to sector and benchmark data; however these kind of data and information do not guarantee their accuracy and can be chosen to address the result representation. The framework should require the disclosure on sources of information and the reference period for such information.

#### Guidance

Although the Framework is not intended to be a standard, but a set of principle based indications, its implementation requires the IIRC to develop a “bridge” between the principles and the actual reporting. The framework, therefore, should clearly state that where other reporting principles, guidelines or standards exist and can be used as a reference for IR reporting areas, they can be used by reporters and they must be indicated, as a reference, in the IR.

## 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 principles of Materiality and Comparability are not consistent. The first one implies that a company discloses on its specific material issues but the materiality analysis of different companies in the same industry could be different and then they could result as not comparable, despite the principle of comparability. This contrast cannot be solved and the framework should clearly indicate that this can't be solved.

## ***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?*

We envisage an integrated report not as an additional publication but rather as an enhancement of an existing publication. The integrated report should be represented by the Annual Report as it is the main document dedicated to financial capital providers. In their investing decision making process investors need a detailed disclosure on information included in financial and sustainability statements in addition to a concise storytelling on the company value creation. The language on this issue in the Framework is not clear [Section 1.18: "It is anticipated that a stand-alone integrated report will be prepared annually..."].

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?*

From the sustainability point of view the GRI guidelines should be considered even if both GRI and IIRC need to define a coherent methodology for the selection of material issues that allows to meet the objectives of the two organizations.

## ***Other***

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

It could be useful to integrate the 1.6 paragraph statement as follows "An integrated report should be prepared primarily - though not exclusively - for providers of financial capital in order to support their financial capital allocation assessments." This would reinforce the mention in Section 1.7 of the benefits of <IR> to other stakeholders.

## **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?*

Yes we agree because all the forms of capitals are considered. It should be optimal having the same classification of capitals as that one in the literature of intangible assets where intellectual capital is spitted in human, relational and structural capitals.

We suggest to better define the classification of certain capitals (i.e. reputation; intellect; brand).

In addition we would like to underline the possibility if desired to use a less technical language in the reporting, without making a direct reference to the specific name of capitals (we suggest to use People instead of Human capital, Water and Air instead of natural capital, etc).

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

A company should describe how capitals individually support value creation. Sometimes explaining the interdependencies between the capitals could limit the disclosure because it could focus more on the capitals trade-off than on the value creation. For example if the disclosure focuses on the trade-off between the costs for people's training and the increase of people's competencies, probably the more skilled people's contribution on the value creation could not be quantitatively highlighted.

As required by the framework, we agree with the assumption that capitals could be both quantitatively and qualitatively disclosed (see paragraph 2.24).

### ***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 we agree

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?*

The concept of "outcomes" is defined in a very broad manner leading to a subjective outcome disclosure for the companies that prepare the IR. We expect future development of this concept so that a not excessive work is required to preparers in order to disclose the outcomes of their business activities.

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)?*

### ***Other***

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

The definition of "business model" is too general, in the background paper too. The framework should provide more concrete guidelines.

The concept of "value" should be further developed. A background paper on the topic is necessary to reduce the risk of it becoming such an abstract concept that in the end it is

not included within the IR.

Connectivity is not univocally defined in the Framework. For instance in the 2.42 paragraph connectivity is described in qualitative terms, in the 2.44 paragraph the monetization of externalities is mentioned, in the 3.11 paragraph the need of both KPIs and a qualitative description is reported. A unique approach to connectivity should be defined.

Our proposal for this approach is to consider:

1. wherever it is possible, value creation should be expressed in terms of financial results (revenue generation / cost savings);
2. where it is not possible to use financial metrics, value creation should be expressed with different quantitative KPIs (e.g. cubic meter of water consumption) illustrating qualitatively how an improvement in terms of non financial performances could generate an improvement in more general business results (reputation, licence to operate, trust, etc).

### 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?*

Additional clarification should be provided in relation to the following aspects:

\_ Materiality. It is not clear how to strike a balance between stakeholders and investors (or senior management and those charged with governance) perspectives . The IIRC begins with a definition of materiality from the investors perspective but picks up subsequently by considering and including all stakeholders and all forms of capitals. This lack of consideration of all stakeholders from the very beginning does not contribute to avoiding a "cherry picking" approach in materiality .

\_ Magnitude of effect. It has not been indicated how to consider aspects/matters that could affect stakeholders but that do not have a specific impact on the financial value of the company. For instance, how should a company report on a matter of fundamental importance for a local community but that is not all that relevant if referred to the company in its entirety (i.e. multinational)?

We agree with the approach that select material issues on the basis of what affects value creation. Furthermore we think that 'providers of financial capital' as primary intended users focuses the design of an integrated report. However, engagement with stakeholders may allow companies to identify material issues that otherwise would be overlooked.

The reporting boundary has to be defined as a result of the materiality analysis and only those aspects that can be managed by management of the reporting company should be disclosed.

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

In our opinion the management should select material issues taking into account risks and opportunities that impact on the long term value creation of the company.

Materiality determination process is a field where more guidance should be provided by IIRC. Guidance means for example requiring the application of an existing methodology (e.g. AccountAbility) or at least to the necessity of comparing internal choices to external analysis of sector-specific ESG issues.

**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?

Assuming the Annual Report to be the integrated report, it is worth mentioning that the annual report includes an attestation rendered by the CEO and the CFO of the Company (as required by the current legislation in Italy), where they affirm that "the operating and financial review provides a reliable analysis of business trends and results, as well as a description of the main risks and uncertainties."

The reliability of an integrated report is also guaranteed by a materiality determination process well defined through an accurate methodology; an accurate internal reporting system; a coherence of information reported in different parts of the same document; and an external assurance.

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

In the 3.42 and 3.43 paragraphs the adverb "significantly" and the adjective "significant" should be cancelled. In fact, it is not convenient for an organization, in explaining how it manages its business in order to create value over time, to provide information that can reduce its own value creation ability.

**Other**

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

Connectivity

The methodology behind the connectivity between financial and non financial aspects is not described. It is necessary to define new "composite" metrics.

Comparability

\_ The framework should clearly state that where other reporting principles, guidelines or standards exist and can be used as a reference for IR reporting areas, they can be used

by reporters and they must be indicated, as a reference, in the IR. In fact the absence of clear explanations regarding metrics, KPIs, ratios and their calculation does not allow to compare performances among different companies/industries.

\_ The framework should include criteria for the presentation of changes in information estimates, reporting boundaries (e.g. new KPIs or different reporting scope) and corrections of errors compared to previous periods. It is suggested to adopt IFRS requirements.

## 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).*

Value from risks and capitals management

\_ The concept of risk, which might be seen as an opportunity from a broader perspective, allows to define a methodology of prioritization, in terms of relevancy/most relevant themes to report on.

\_ The possibility that the various forms of capital are internal or external to the organization offers an important input to the process of risk management but this relation has not been clearly defined. There is an opportunity to better define this topic leading to a further integration of the "content elements".

According to the chapter 4 an integrated report should answer to many detailed questions (eg 4.8 and 4.9 paragraphs about external environment); these requirements would be in contrast with the principle of conciseness.

Regarding the 4C section, we think it helps companies to consider megatrends or long-term opportunities and risks, such as climate change, population growth, water shortage, etc. that impact the business and that could more likely be seen as material and included in an integrated report.

## 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?*

This aspect has to be left to local rules. In Italy the law clearly indicates who is/are the responsible for corporate communication of listed and not listed companies.

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

\_ If, as indicated in the framework, integrated reporting can be the sum of all the information presented in different forms and places it may be difficult to coordinate and

link the responsibilities related to the various sources of data.

\_ A potential ownership and responsibility problem arises due to the fact that the IR requires the company to report in new ways and on new reporting areas (i.e. capitals, business model), where reporting processes are not usual and well developed.

\_ Having said that, we reckon that the framework should not give additional rules that might be in contrast with local regulations on these aspects but it should only require a clear disclosure of responsibilities if necessary.

### **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?*

Currently the consistency analysis with the financial statements is performed by the independent auditors on the financial actual year data and the Directors of the Company are responsible for the preparation of the Report on operations, including forward looking statements. The inclusion of non financial data and information should also be assured by external auditors.

*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.*

New assurance standard and approach

\_ The assurance of an IR composed of information from different sources may pose problems and limitations, reducing the reliability of its content.

\_ There is a need to define new assurance criteria and to integrate different methods that focus on the different "objects" of reporting.

### **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?*



## 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?*

The framework defines IR as a “process”, however the entire framework is the explanation of a disclosing structure (principles, contents, etc.) to which refer to. The message “IR is a process” is commonly accepted but it is represented in such a way that does not allow its full comprehension and application. We suggest to better develop a guideline on the implementation process; this could also be useful to coordinate the IR framework with other reporting guidelines (ie G4).

A more detailed definition of “outcomes” in connection with the reporting boundary should be developed.

## Other

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