

## 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.

We welcome the opportunity to comment on the Consultation Draft of the International <IR> Framework. We would like to express our support for Integrated Reporting. The <IR> Framework is consistent with our approach to corporate reporting: 1) give a comprehensive view of the organisation and communicate its value creation process concisely to investors for better decision-making; 2) bring together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates and leads to the creation of value and 3) encourage long-term investment and facilitate business sustainability.

## 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.*

We consider the six principles suggested by IIRC are appropriate and can provide flexibility for local adaptation. The Framework is currently in good enough shape for pilot companies to trial and any improvements can be made after piloting companies (IIRC's Business Network) as well as the investor community (IIRC's Investor Network) feeds back on this second round of the pilot programme.

### ***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?*

#### **General Comments:**

A stand-alone integrated report may not be able to address expectations of different stakeholders. Taken together the integrated report, sustainability report and the wealth of other information available on the organisation's website (such as some governance documents and community investment report) can give a coherent and integrated picture of an organisation and satisfy the information needs of different stakeholders in economic, social and environmental aspects of the business.

#### **Specific Comments:**

Paragraph 1.18: "...it is anticipated that a stand-alone integrated report will be prepared annually in line with the statutory reporting cycle." gives the impression that this is a "third" report separate from the annual and sustainability reports.

- Although this may be an option, we suggest that the IIRC not advocate any specific approach at this point in time. Different companies may choose to apply the IR concept differently. There are companies who do only want and produce only one report and not separate ARs and SRs. Allowing companies to choose any of the below options (or others), whichever would best suit them could help to keep/attract as many companies on board as possible.

- In summary, there are at least these possibilities for applying the IR concept:

1. Morph or update one of your current reports to become your integrated report (most likely the Annual Report since the IR is supposed to be focused in the capital providers, an option that CLP has chosen).
2. Develop a new report (in addition to existing Annual and Sustainability reports) which is concise and perhaps a balanced summary of both the Annual and Sustainability reports.
3. Have only one integrated company/annual report (which some companies choose to do but it probably depends on the sectors and local jurisdictions they are in, eg. heavy industry will likely need to continue to provide more detailed information to satisfy all

their influential stakeholder groups, while service industry like banks and consultants have less perceived ESG issues and so covering any key ones in their annual report may be enough so just one integrated annual report may make sense for them. There is also what the local regulatory reporting requirements are since they can influence which of these options are even legally possible).

Paragraphs 1.19-1.20:

- We generally agree with these paragraphs. However they could benefit with a bit more detailed reference to other standards, particularly the ones with which the IIRC has already signed MOUs with, such as the IFRS and GRI.
- It would be helpful to have a visual diagram of which space the IIRC fills compared to and/or relationships with other standards and guidelines such as the IFRS/local GAAP, GRI, SASB, etc.

*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?*

IIRC's partners/collaborators (and their reporting guidelines, indicators or measurement methods), which IIRC has signed MOUs with, such as:

- IFAC
- IASB
- GRI
- WICI

Other references such as US GAAP and UK FRSS

### ***Other***

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

Perhaps better presentation format on the main "Objectives of the <IR>" would be helpful in distinguishing the efforts of the IIRC from other standard setters (maybe highlight it in a separate large text box for example).

- As we have spread the word on <IR>, there have been some comments from that there needs to be a bit more text on 'why?' companies should follow the <IR> process. Hence perhaps need a double-page spread dedicated to the "Objectives of <IR>", "Audience of <IR>" and a bit more text to convince on the 'why?' (can copy some of the previous introductory text from the last version of the draft).

- While the next double-page spread can then focus on the "Objective of the Framework", "Application of the Framework", "Integrated Thinking" and "Interaction with other reports and communications" (with a diagram illustrating the interaction with other reports and communications).

## 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?*

Generally agree - articulating the importance of various types of capitals is indeed useful.

However, last bullet of paragraph 4.5, which requires an organisation to disclose the reason why it considers any of the capitals identified in the Framework to be immaterial given its particular circumstances, could be onerous to an organisation trying to adopt the <IR> Framework. This last bullet of paragraph 4.5 is also not consistent with the encouraging approach which allows flexibility in adopting the Framework as said in paragraphs 1.14, 2.18 and 2.19. In light of the introducing stage of the Framework, we suggest to adopt a less onerous but more flexible approach. Perhaps over time when <IR> framework is widely adopted, the last bullet of paragraph 4.5 can be pursued.

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

There is a need for more guidance or at least the provision of more examples on how the capitals in Section 2B can be articulated, particularly in light of Section 2D (paragraphs 2.37-2.45). It is recognised that this may not be possible until there are more Integrated Reports being produced that do address or show various ways on how it could be done. Therefore it is important for the IIRC to continue maintaining and updating their Examples Database to incorporate how capitals are portrayed as part of a company's value creation story.

### ***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 suggest slightly modifying the definition in paragraph 2.26 to read "A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create and capture value over the short, medium and long term".

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?*

Agree. There tends to be less focus on internal and negative consequences so it is important to require this in the guidance. Understanding the internal consequences will help shed more light on your operational performance while looking at negative consequences is a good practice for the purposes of both improving performance as well as building trust with your stakeholders.

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)?*

The current guidance seems to have enough elements for us to consider when attempting to articulate our business model.

However, as per our response to #6, more guidance or examples on how to portray the capitals in 2B to support articulation of the the business model in 2C (such as paragraph 2.36), and value creation in 2D is needed.

#### **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?*

We agree that taking the level of influence on the assessments of providers of financial capital into consideration may provide an objective test to the materiality determination process. However, the materiality determination process by the senior management should be in a broader perspective, having regard to the assessment of the providers of financial capital, as well as those of other stakeholders interested in the organisation's ability to create value over time. Hence, perhaps a cross reference to paragraph 5.8 should be included in Section 3D.

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

#### **Paragraph 3.29: Conciseness**

- Although it is appreciated that the principle of 'materiality and conciseness' follows that of the GRI and such alignment helps, it is uncertain whether 'conciseness' should be included due to the following reasons:

a) There is some doubt on how 'conciseness' can be assured.

b) It is recognised that the aim of including 'conciseness' is to help make sure reporters do not try to bury readers in meaningless/redundant text to cover up for lack of substance. However it is believed that over time, readers will have less time to read the increasing number of reports and become sophisticated enough to judge whether the report is being unnecessarily long-winded in place of material substance.

### ***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?*

Information on mechanisms employed to ensure reliability (as mentioned in 3.32), including internal reporting systems (with internal and/or external controls), stakeholder engagement processes, as well as independent/external assurance (as outlined in paragraph 3.31), should be presented in the Integrated Report.

- It is believed that external assurance will become a common practice for supporting the demonstration of reliability.
- Senior management and those charged with governance exercising judgement can also consider disclosing the data verification process and control system for corporate reporting on its website.

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

Paragraphs 3.36-3.47: Completeness

- Some guidance on the linkage between the principle of completeness in 3E and materiality in 3D to help resolve some potential conflicts between these two principles would be helpful.

### ***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).*

Paragraph 4.4: "An integrated report should stand alone as a concise communication,..." gives the impression that this is a "third" report separate from the annual and sustainability reports.

- Please see our response to #2, on paragraph 1.18.

Paragraph 4.5: Provided that the information disclosed under paragraph 4.5 is meaningful and material to the intended report user, we support disclosing more about the decision-making process in the preparation of 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?*

Yes, but over time. This will help clarify/establish who is charged with the responsibility and acknowledging this responsibility publicly will result in companies developing the appropriate governance structure, internal processes and approvals, which should in turn improve the linkage to the overall business strategy, as well as the quality of reporting itself. It will take time for various companies to reach this stage of maturity.

- Hence the current optional requirement in paragraph 5.18 is sufficient for the time being and the IIRC can consider making it mandatory when there is enough feedback from both the Business and Investor Networks to justify the practicality and usefulness of such a requirement.

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

The second bullet under paragraph 5.18 states that the governance body may include a statement "that it has applied its collective mind to the preparation of the integrated report and the information it contains". Usually, in light of the importance of integrated report as a key communication with investors, the Board of Directors (or as delegated to the Audit Committee) is the governance body with this oversight responsibilities. It may not be practical for the Board or Audit Committee to collectively involve themselves in the preparation of the integrated report. They are usually charged with the responsibility to review/approve the integrated report. Therefore, we suggest replacing the word "preparation" with "preparation/review/approval" in the second bullet under paragraph 5.18. Afterall, it's the ultimate review/approval process which matters most in terms of such a responsibility statement.

### ***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?*

Assurance covering the integrated report as whole could be a desired outcome, however we do not know if this is practical and even if it may be, it can only become practical over time. We should take into consideration the learning curve that both the report preparers and assurance industry must journey through to see if this is a practical goal.

Meanwhile, <IR> should encourage assurance over specific aspects as a start, and increase the aspects covered over time, as both the reporting and assurance practitioners gain more experience, insight and confidence over the data and information that can be reported meaningfully and robustly.

In order to have both the financial and non-financial information assured, the

organisation as well as the assurer may invest much more resources and time on the audit function. Senior management should strike a balance between the costs and benefits of report assurance with a view to ensuring the assurance undertaken is adding value to the organisation as a whole.

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.*

It is believed that external assurance will become a common practice for supporting the credibility of the Integrated Report, as well as the operational and governance processes and systems supporting it.

We suggest the IIRC to discuss and support relevant assurance bodies in developing a corresponding assurance framework with respect to Integrated Reporting. The assurance framework should not only aim to build stakeholders' confidence in the integrated report, but also encourage improvements within the business around systems and management.

### **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).*

With a title like Preparation and presentation, preparers will likely expect more than what is currently included. In fact, the step-by-step guide that was available in the first round of the pilot programme would be extremely helpful to include in this Chapter 5.

### **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 this principle-based <IR> Framework can be adopted by large, medium and small enterprises as well as not-for-profit organisations. However, senior management support could be a challenge for certain organisations in those markets where reporting is still perceived as a costly and non-value added compliance exercise. Adequate resources, therefore, may not be allocated and what was supposed to be useful Integrated Reporting may end up being boiler-plate disclosures. In addition, adopting an integrated thinking approach will be another upcoming challenge for enterprises in the preparation of corporate reports for the intended report user in the assessment of investment.

To ensure the Framework is appropriate and relevant over time, it would be good to get feedback from:

- at least the stock exchanges around the world
- and of course relevant international and local accounting and reporting standard setters.

Obtaining the buy-in of the above mentioned stakeholders should be a priority.

## 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?*

### Materiality & conciseness

- How to determine materiality is a challenge given the complexity of the various dimensions that need to be incorporated (e.g. economic, environmental, social and governance; varying scope depending on operational control or severity of impact; etc.)
- Some more examples/guidance on how to determine the significance of information should be given in the explanatory note.
- It is recognised that a background paper on materiality now exists, so will see if it can satisfy our needs.

### Connectivity

- More guidance in this area would also be helpful given the need to weave in all the relevant capitals in the value creation story whereby only the most material of the aspects need to be addressed.

### Assurance

- This is a challenging area given that it needs time to develop and the earlier we can stimulate development of investment in the capacity needed in this industry, the more it helps to ensure that companies can report on relevant and material ESG aspects in an accurate and robust way.
- explanatory material should include some more methods/ways to increase the reliability as well as the credibility of the integrated report.

## Other

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

Some guidance for small to medium enterprises to use <IR> to their advantage to meet possible listing reporting requirements (that include ESG reporting) would be helpful in the Hong Kong context.

More step-by-step guidance would be helpful in demonstrating that the <IR> is not an 'abstract' framework, especially if the guide focuses on how to build the internal 'integrated thinking' as well as reporting structures and processes (see response to #21).