

## 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:

This is a joint submission of EFFAS and DVFA. The submission is authored by a working group consisting of members of EFFAS Commission on ESG and DVFA Commission on Responsible Investing. Hendrik Garz and Professor Alexander Bassen serve as spokesmen of this working group.

Email:

[mk@dvfa.de](mailto:mk@dvfa.de)

Stakeholder group:

Other

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

Organization name:

EFFAS/DVFA: EFFAS Commission on ESG and DVFA Commission on Responsible Investing

Industry sector:

Financials

Geographical region:

Western Europe

### 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.

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About EFFAS & DVFA:

EFFAS, the European Federation of Financial Analysts Societies, was set up in 1962 as a professional association for nationally-based investment professionals associations in Europe. Today, the umbrella organisation comprises 27 member organisations, representing more than 17,000 investment professionals. EFFAS provides a pan-European platform for the individual member societies aimed at promoting

communication and building a network for investment professionals across Europe. The Federation represents the interests of the profession in Europe and is an authoritative counterpart for politicians and EU representatives/legislative bodies in the fields of professional ethics as well as standards and qualification in investment research, asset and portfolio management, investment advice, etc.. EFFAS is a strong partner in the achievement of an integrated European financial market.

DVFA is the Society of Investment Professionals in Germany, founded in 1960. Currently, DVFA has approx. 1,300 individual members representing over 400 investment firms, banks, asset managers, consultants and counselling businesses. DVFA assures the credibility of the professionals and the integrity of the market by offering internationally recognised qualification programmes, by providing platforms for professional financial communication, and by effective self-regulation.

EFFAS/DVFA is pleased to comment on the draft framework from an investors' perspective and appreciates that investor views are taken into account in the development of the Framework. Without doubt the support of investors is crucial for the implementation of Integrated Reporting, at the same time investors are the primary intended report users. Much of what will be reported in an Integrated Report would be equally relevant for other stakeholders, but the Report should focus on writing for the knowledgeable reader rather than an uninitiated audience, which should serve the goal of producing a concise Report.

Investors welcome Integrated Reporting for it brings together different types of reports (financial/non-financial) and provides new consolidated findings about business models, underlying strategies and added value. EFFAS/DVFA strongly encourage the IIRC to ensure that the final document will serve as the relevant guidance document for Integrated Reporting.

Nevertheless, EFFAS/DVFA consider that there should be a greater consideration of quantitative aspects of integrated reporting. Qualitative narrative explanation should be complemented with reliable metrics where possible. EFFAS/DVFA hold that IIRC should encourage the development of suitable metrics and KPIs. At this stage the proposed principles do not refer to the need for quantitative information as distinct from qualitative narrative.

## 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.*

From the point of view of EFFAS/DVFA the considered principles-based requirements are appropriate.

For the sake of clarity the requirements should be listed in one place for ease of reference.

### ***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?***

EFFAS/DVFA fully agree with the characterization of the interaction with other relevant reports and communications. The characterization illustrates the intention to integrate financial and non-financial reports and to effectuate behaviour modification of preparers and users in integrated reporting and thinking.

From the point of view of EFFAS/DVFA integrated reporting should be a dynamic, continuous process. Therefore, integrated reports should be kept up to date by providing information more frequently during the period. The updated data should be released on the website of the respective organization/company.

The Integrated Report should eventually become the principal document that companies in any given jurisdiction are required to publish. In those countries where companies are required to file an Annual Report, Annual Accounts and an Auditor Opinion, the Integrated Report should be the statutory Annual Report. In other jurisdictions it would be the equivalent of the financial statements, auditors' report, MD&A and corporate governance filings.

EFFAS/DVFA appreciate that IIRC and IASB have signed a memorandum of understanding as the IASB's Management Commentary guidance shows significant overlap with what is required under the IR Framework. EFFAS/DVFA encourage IIRC and IASB to explore further to what degree the IR framework and the guidance for the IASB's Management Commentary could be matched.

#### ***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?***

EFFAS/DVFA support the creation of an online database and recommend to include the following sources of indicators/ measurement methods:

- International Accounting Standards Board IFRS Practice Statement Management Commentary 2010
- EFFAS/DVFA KPIs for ESG (2010)
- German Sustainability Code
- G4 GRI (2013)
- CFA Institute, 'Environmental, Social, and Governance factors at Listed Companies: a Manual for Investors' (2008)
- National references
- Accounting Standards Board (UK), 'Operating and Financial Review'

- Australian Institute of Company Directors & PricewaterhouseCoopers, 'Shareholder friendly report'
- Institute of Chartered Accountants in Australia, 'Extended performance reporting: an overview of techniques'
- Australian Securities and Investments Commission, Regulatory Guide 247 on the Operating and Financial Review
- Australian Securities Exchange (ASX), Listing Rule 3.1 and Guidance Note 8 on continuous disclosure
- Canadian Institute of Chartered Accountants, 'MD&A Guidance on Preparation and Disclosure'
- Deloitte, 'Added value, long term: non-financial sustainability key performance indicators on their way into financial reports of German companies' DVFA, Germany
- The Norwegian Society of Financial Analysts, 'Recommended guidelines for the reporting of additional information on value creation'
- King Code of Corporate Governance for South Africa (King III)
- Universities Superannuation Scheme, James O'Loughlin and Raj Thamotheram, 'Enhanced analytics for a new generation of investor'
- US Securities and Exchange Commission, 'Management's Discussion and Analysis of Financial Condition and Results of Operations'
- New Initiatives
- SASB (North America)
- Project Delphi (Europe)

### ***Other***

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

## **Chapter 2: Fundamental concepts**

### ***The capitals (Section 2B)***

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

Yes, but metrics are less well developed for some capitals and need to be improved.

EFFAS/DVFA point out that the use of the term "capital" (other than "financial capital") is quite controversial. Anyway, the crucial factor for investors is "value". Investors are focussed on risk-adjusted returns, and wish to understand how the company increases

its value based on all the different capitals mentioned in the consultation draft. The current framework presents value creation as an aggregate value of all of the capitals which in the view of EFFAS/DVFA is not feasible. The current model does not sufficiently address a company's ability to generate profits and how sustainable its resources are. This would require acknowledging the interaction between the company and the individual capitals. Moreover, it would be useful to require that companies specifically address the value proposition for the customer.

EFFAS/DVFA consider it of vital importance that a company operates responsibly and takes due care of all the capitals mentioned here; likewise stakeholders (other than shareholders) influence business drivers and their availability. Whilst EFFAS/DVFA wish to see the development of rigorous metrics for the other capitals, it is unrealistic to expect investors to be content to see returns on other capitals as a substitute for unsatisfactory returns on their financial capital. In general though, we caution against artificially monetising e.g. the impact of certain capitals; we consider it in most cases implausible to create a mono-causal link between one factor and profit.

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

### **Business model (Section 2C)**

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

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

EFFAS/DVFA do 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?*

EFFAS/DVFA do agree.

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)?*

EFFAS/DVFA suggest including within 4.22 the concept of systemic risks created by the actions of the organisation and its industry. This is an important component of the idea of a sustainable and resilient business model.

### **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?*

Materiality should be determined by the assessments of investors as the primary intended report users. However, the concept of materiality is complex and not only related to a big number. It will sometimes be a qualitative assessment.

Issuers cannot be put in conflict with their existing regulatory obligations with regard to materiality. Therefore, the IR framework has to be adaptive to statutory obligations regarding materiality in different jurisdictions.

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

### **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?*

Integrated report should include all material matters, both negative and positive, in a balanced way free from material error. Transparent disclosure will help to communicate this whilst boilerplate disclosure will often be inadequate. Independent assurance will help provide credibility in this respect.

*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.*

## 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).*

Referring to Governance (4.11) EFFAS/DVFA recommend to complement integrated reports with the subject "competence and experience" for these characteristics are vital for the creation of value in the medium and longterm.

Remuneration of management should reflect an integrated view of the company as well as an approach to managing risk and creating value.

## 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, accountability should be the centrepiece of all reporting. Management must account for their stewardship and this starts with a profound acknowledgement of their responsibility. Paragraph 5.17 sets out the rationale well. It would be helpful to acknowledge the primacy of investors in this reporting relationship.

EFFAS/DVFA would expect those charged with governance to provide a statement of compliance with the IR framework - this should be obligatory - and the external auditor should perform a consistency check for the Integrated Report as well.

Non-executive Directors should state explicitly that they have not only determined the reliability and completeness of the financial numbers but also of the content of the Integrated Report. Examples of such requirements are already in some jurisdictions such as Australia (Section 299A of the Corporations Act).

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

### ***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?*

To provide credibility to reporting, assurance is substantial - assurance should cover the whole report but this may not be realistic in the earlier phases. Assurance as well as underlying metrics for the different capitals are still evolving and assurance providers will

need to invest huge amounts to build up profound testing techniques. EFFAS/DVFA are looking forward to comments of assurance providers on this issue.

Other forms of assurance can be important as well, for instance the aforementioned statement by Non-executive Directors on the whole Integrated Report or assurance by multi-stakeholder associations.

*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.*

EFFAS/DVFA realise the distinction between setting the integrated reporting framework against which assurers need to assess reports on one side and the protocol for performing audit engagements. This labour splitting between standard setters and auditing standard bodies has been helpful in financial accounting in general. In order to make it work, there needs to be an effective dialogue and a co-operation between both parties however.

The true and fair view used in financial accounting audit may be helpful in integrated reporting as it seeks to test whether the financial statements adhere to the principle as well as the letter. The readers of integrated reports surely wish to be pleased that they go beyond compliance with the rules.

### **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?*

As companies produce integrated reports the feedback will provide valuable insights into how the framework should evolve.

### **Development of <IR>**

*23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

- 1) Linkages between the IR Framework and existing disclosure framework
- 2) Database of best practice examples, not necessarily full reports but components/parts out of them
- 3) Expected involvement of the Board in the process of <IR>



## Other

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

Regarding paragraph 1.1.2 on page EFFAS/DVFA emphasises that the requirement to indicate which information has been omitted and why, can be in breach of regulations. Any explanations should be limited to material information.