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Professor Mervyn King  
Chairman  
International Integrated Reporting Council  
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Dear Professor King

**Consultation Draft of the International <IR> Framework**

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. We believe that the draft <IR> Framework is an excellent document that has greatly assisted our efforts to produce our first Integrated Report and very much welcome the opportunity to assist with its further development.

As an IIRC pilot programme participant we have seen the benefits of more integrated thinking and decision making that following the <IR> principles engenders. However, our discussions with those not yet specifically following <IR> principles indicate a need for the <IR> business case to be more comprehensively explained. Publicising insights from peers already experiencing the benefits of <IR> will be particularly important in this regard.

We attach responses to the individual questions raised in the discussion paper but would like to draw your attention to some of the specific points we make.

We believe it is important that <IR> remains principles-based. The focus on materiality should be maintained within a framework that overlays local standards and regulations and encourages a comprehensive description of the business.

Although we accept the need for organisations to consider a broad range of resources and relationships in the short medium and long term, we believe that the term 'capitals' is not aiding widespread acceptance of this concept. The word 'Capital' has an established meaning in financial terms and alternative terminology may help to accelerate adoption of <IR>. We favour terminology that emphasises shepherding of the required inputs over time.

We believe that the framework could usefully be enhanced by a discussion of the need to explain the inter-relationships of the separate elements of the business model as well as a focus on the related flows.

We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

*Nick Topazio*

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## **Responses to the specific consultation questions :**

### **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 are not aware of any additional requirements nor do we believe that any should be eliminated or changed.

We believe that application of the Framework might be aided by an appendix providing a summary of all the bold-italic type principles-based requirements. This can be used by preparers as a checklist of the principles-based requirements.

#### **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?*

Integrated Reporting is a mindset and should be regarded as an umbrella framework within which various types of report and communication can comfortably exist. The principles contained in the draft framework set out a process of reporting which can encompass all types of report. The concepts of materiality in relation to long term business sustainability and conciseness are particularly important for effective reporting.

We agree that an Integrated report should be 'stand-alone' in terms of being a complete report but would like to emphasise that this does not necessarily mean that the report should be a separate document from other reports and communications.

*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?*

One of the issues that annual report preparers have expressed to us is 'how do the various reporting initiatives such as <IR>, GRI and SASB fit together?' We would want the IIRC to include a comprehensive range of established and relevant sources. The choice of which indicators or measurement methods to use should be left to companies to decide, subject to local regulation.

#### **Other**

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

Paragraph 1.8 points out that "those providers of financial capital who take a long term view of an organisation's continuation and performance are particularly likely to benefit from <IR>". We agree

with this view and would prefer that the definition of the primary intended user of <IR> contained in paragraph 1.6 excludes those providers of financial capital that have such a short investment horizon that they should be considered share price speculators rather than investors.

We agree that integrated reporting is as equally important to public sector and not-for-profit entities as it is to corporates. The different types of organisation may have different definitions of value-creation but the concept that each exists to create value, whether that is profit, public services or other non-financial benefits, is common to each. We note that paragraph 1.10 makes the point regarding the wider applicability of <IR>, however, we would prefer that this paragraph is expanded to explain why.

Paragraph 1.11 lists the unavailability of reliable data as one of the potential reasons not to prepare information in accordance with the Framework. We are concerned that some users of the integrated report may not accept "unavailability of reliable data" as a reason for not complying with all of the principles, and therefore that companies may be compelled to undertake expensive data gathering that does not make sense from a cost/benefit perspective in order to comply with all of the principles. We believe that this limitation should be expanded to include a cost/benefit test.

Additionally in the case of the "*specific legal prohibition*" or "*competitive harm*" exceptions the nature of the information that may need to be disclosed might present a 'roadblock' to some organisations preparing an integrated report in accordance with the Framework. We believe that the disclosure requirements in paragraph 1.12 should be relaxed to avoid practical application problems.

## 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?

In our discussions with preparers and others we have heard of some difficulty in the interpretation of the concept of 'capitals'. The issue appears to be more about terminology rather than the principle of a range of inputs that need to be 'shepherded' to ensure future cost effective availability.

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

We believe that further explanatory material should be included to illustrate the application of the concept of capitals to not-for profit and public sector organisations.

Paragraph 2.9 states, "*some of the capitals belong to the organization, while others belong to the stakeholders or to society more broadly. The organization and society, therefore, share both the cost of the capitals used as inputs and the value created by the organisation.*" Some might infer from this statement that it is the role of the organisation to measure and report on the change in capital for society. However, the methodology for such measurement is far from fully developed and we believe that such requirement would be too onerous at this time. We believe that the <IR> framework should clearly state that the requirement for organisations to report on material societal capital outcomes does not necessarily require detailed measurement where suitable measurement methodologies are not available.

### 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 the proposed business model definition.

### Business model (Section 2C) continued

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?

As one of the co-authors of the IIRC background paper on business models, we directly engaged in the careful consideration of issues relating to business model disclosure. We believe that an explanation of outcomes is a key disclosure necessary for a full understanding of the impact of the organisation and its activities.

We agree with the definition although we would like to stress the importance of emphasising all elements of the organisation's business activities and outputs that aim to satisfy customer needs.

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)?

We believe that the framework could usefully be enhanced by a discussion of the need to explain the inter-relationships of the separate elements of the business model as well as a focus on the related flows.

### Other

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

No further comments

## 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 believe that an integrated report should contain relevant information that is material for an understanding of an organisation's sustainable business success. With the exception of extremely short timescale providers of financial capital we agree that assessments made by the primary intended report users represent an appropriate benchmark against which to gauge materiality.

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

In relation to the requirement for conciseness, we believe it is important to stress that jargon and industry specific terminology should be avoided. The report should be written in plain language with the emphasis being on it being a communication device.

### 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 believe that reliability would best be demonstrated by appropriate disclosure on the robustness of the internal reporting systems, extent of stakeholder engagement and scope of independent, external assurance. In this respect, it will be important to establish the needs of the primary user.

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

It is possible that paragraph 3.34 is construed to mean that there should be an equal amount of good and bad news included in an integrated report. We do not believe that this is the intention of the Framework and would prefer wording along the lines of "making appropriate disclosure of impacts on the capitals irrespective of whether the affect is positive or negative".

### Other

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

We have nothing further to add

### 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).

We believe that the content elements listed in paragraph 4.1 represent a comprehensive basis for the description of an organisation.

### 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?

We believe that such a statement, accompanied with a description of the basis on which they have satisfied themselves, would provide a level of comfort to report users regarding the procedural rigour underpinning the integrated report and so should be included.

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

We have no further comment

### **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 could cover specific aspects of the report such as the process to develop the information more so than others such as the forward looking 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.*

The credibility of the integrated report would be more easily established if those charged with governance of the organisation clearly explained what they have done to ensure reliability of the integrated report (see response to question 17) and what assurance they have relied upon.

### **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 have no further comment

### **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 highly commend the work of the IIRC and, in particular, its Technical Task Force in the development of the draft <IR> Framework. We believe it represents a significant stride forward and its content proved very useful to us as we prepared our first integrated report for the year ended 31 December 2013. The CIMA 2013 annual Report can be downloaded from <http://www.cimaglobal.com/en-gb/About-us/2012-annual-review/>

**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 application of the <IR> Framework to the not-for profit and public sectors is an area that we believe should be further developed. The focus on 'providers of financial capital' will still be relevant but may need to be balanced with the interests of other stakeholders. Nevertheless the principles of <IR> are, in our opinion, still relevant.

The business case for <IR> should be further developed to illustrate the benefits of integrated thinking and decision-making to organisations.

Many report preparers that we have talked to about <IR> ask us how this initiative fits into the broader reporting picture containing GRI guidelines, SASB standards, EU Non-financial information disclosure requirements etc. Explanatory material that addresses this question would be very useful.

**Other**

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

We have no further comment.