

## 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.

The text is a good attempt to outline a conceptual framework for IR. The use of 'capitals' is especially welcome.

But it is not concise: and in parts it seems obscure ( eg see outcomes/outputs/business model points below.)

The aim should presumably be to have a short document, which will change the way people think about reporting without requiring too much additional study or puzzling over details.

## 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 text would be clearer if the principles were grouped together in one place. Some of them provoke questions. For example in Section 1 the principles include the fact that the main audience is investors. Two considerations flow: (i) is this correct? will we not increasingly see pressure from a wider audience to have their interests reflected in company reports? and (ii) if correct, are we clear how each of the concepts outlined in the rest of the paper would really enhance investor understanding?

Section 1 also says that where material information is omitted, this should be explained in the report. But if there is a good commercial reason for omitting information, explaining it in the way you suggest might incur the very risks of misinterpretation the report is trying to avoid. Shouldn't the Framework give some ideas about this can be avoided?

### ***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?*

1.18 and 1.19 are useful and clear overviews of the IR take on other communications. However applying the IR process continuously in all communications, such as analyst calls, is an ambitious and maybe unrealistic goal for any business. It is likely that the focus will first be on producing the stand-alone integrated report then applying the principles to other communications.

Paragraph 1.20 did not seem to add any value to the framework.

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?*

GRI.LBG.UN Global Compact Blueprint for Sustainability.

## **Other**

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

I wondered if Chapter One was the right place to start. It does not really go to the heart of IR (which is the capitals approach).

At the end, maybe, the final aim should be placed at the top of the aims list rather than the bottom, to reflect its importance.

## **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?**

The approach is a stimulating one. We have asked ourselves whether the capitals are adequate. I wonder if there is a 'capital' which would describe the business's operating environment eg its regulatory environment, its marketing strategy, the economic prospects in its target markets etc??

In general your consideration of capitals suggests that the IR framework is approaching issues from business view rather than other reporting frameworks, such as GRI, which appear to take a stakeholder view. Maybe more needs to be done on social/relationship capital. As drafted it conflates two things: (i) a company's relations with key business partners and (ii) its wider relations with eg local communities, pressure groups etc. It might be better to separate these two somehow.

It is good that the framework does not require that all categories be adopted by all organizations. The point made above about omissions also applies here: the reasoning for requiring explanations for omissions seems sound but in practice no reporter wants to use valuable space in a report or any other communication explaining why a particular capital or issue isn't material, they want to focus attention on what is material.

### **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?**

In our experience, the phrase 'business model' has a specific meaning related to how the organisation fits into the market place ie a company which makes products would have a different business model from a company which develops IP and sells its designs to the manufacturers. Yours is a much broader definition and we doubt that many organizations think of their business model in such a way. You seem to be describing the business's way of organising its internal operations. This is particularly confusing when you include outputs and outcomes in your diagram under business model.

A detail: the terms short, medium and long term will vary from sector to sector: do you intend to leave it to individual business to determine?

### ***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?*

There is scope for much misunderstanding over outcomes and outputs. It would be better to find different terms if at all possible. Generally speaking 'outputs' would be understood to mean for example x number of items produced, and outcomes would describe the profit. Your paper seeks to introduce a wider definition of the latter. Maybe you need three terms: output, outcome, and impact (which would be the social etc impact of the company's 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)?*

4E risks confusing the reader: you seem to be using 'business model' in different sense, and certainly different from the main thrust of Chapter 2. In 4E you also lump together quite different concepts under 'outcomes' ( see above). In general you need clearer definitions of key terms, consistently used, and easy to remember. This is why you may want consider adding a new term (like 'impact') instead of stretching the definition of outcomes.

### ***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?*

While we agree that the primary audience for integrated reporting should be providers of financial capital, we wonder whether they are the only relevant stakeholder in deciding on materiality process. Employees and customers might also have something to contribute in refining concepts of materiality. In addition confining discussion of materiality to investors risks creating a self fulfilling cycle resulting in an emphasis on financial reporting, when your objective is to get reports to go wider.

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

Pleased to see that there is a process for determining material issues. Will reporters be encouraged to disclose the assessment or only the results?

In 5B it is not immediately clear how a material issue could have a past effect on value creation (5.4)? you need to give examples if this is to be readily understood. Otherwise, surely the definition of material is something which has the potential to affect value creation?

***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?*

There is of course a big question about how external assurance might operate in this area ( see below).

'Robust' needs to be spelt out a bit: is it about ensuring durability or about ensuring objectivity? Will the 'robustness' be described in the 'governance' section of the report?

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

We paused over the reference to 'negative' material issues. More thought needs to be given in the framework to how companies should handle this: many will understandably not want to risk reporting 'negative' issues. Can you provide examples? Is it your view for example that in cases where negative developments are covered this will be alongside a 'positive' account of how the company proposes to deal with the issues?

***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).*

Chapter Four needs to be much simpler. As a general point, the key principles need to be self explanatory.

For example: 'How does the organization's governance structure support its ability to create value in the short, medium and long term?'. For many people the answer would be simply, 'by ensuring the company is well run in conformity with local laws etc '. But your explanation goes further in talking about diversity etc.

You need to find a way of describing the areas you want to target more simply, so that the key principles become a self standing check list, not a text requiring reference to additional interpretative information.

## 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?*

Company Governance is of course conditioned by legal requirements. Having the Board take explicit responsibility for all the contents of an IR might not in the end add much, provided the preparation process was reliable, and included eg Exec approval. You need to clarify exactly what you mean by those charged with Governance. Would it have to be the Board? or all Execs? or a subsidiary committee?

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?*

We assume there will be a financial audit as at present. Whether there should be an audit of other aspects of the report is a big question. Much would depend on the balance of benefits v effort. In some cases difficult judgments might be involved. In others access to first hand information might be tricky given geographical and language issues. We should also not forget the burden on SMEs, where we should be trying to encourage uptake. Additionally, the IR framework should stimulate organizations to explore approaches or issues which they had not previously included in their reporting. This means that some areas of their reporting might be further along than others. They may want to option to have only the stronger areas assured.

An IR should presumably indicate which areas have or haven't been assured.

*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).*

## 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?*

The Framework needs to be clearer. It is at present somewhat repetitive and diffuse. A clear checklist would help. Plus examples of how to deal with tricky issues. Some notion of how big a leap this is would also help. Our impression is that in fact many companies are already reporting along strategic (or integrated) lines.

## 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?*

Determining materiality.  
Dealing with the negatives - this is uncomfortable territory for even the most advanced organizations.  
Why IR Matters.

## Other

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

Please save the completed PDF form to your computer and submit via the IIRC website at [www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)