

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).

Comments should be submitted by Monday 15th, 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.

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 support the adoption of a principles based approach, underpinned by the exercising of judgment by senior management and those charged with governance (as outlined in paragraphs 1.1 - 1.12). In particular, the clarity that an integrated report should:

- report the creation of value over time;
- be prepared primarily for providers of financial capital; and
- be prepared in accordance with the stated framework.

In addition, we consider the acknowledgement in the framework that information can be omitted if explained is appropriate, as it encourages early adoption of the framework, even if an organisation is developing processes and controls over specific information or data within its value chain.

Overall, we support the principles as proposed.

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?*

The integrated report should act as the primary report for the providers of financial capital and should communicate an organisation's value creation strategy. As such, the concepts of <IR> reporting should be embedded within the business and therefore extended to all other relevant reports and communications.

We support how this is addressed by the framework, acknowledging that other stakeholders may require reporting which meets their specific needs.

Whilst the Framework makes particular reference to analyst calls and the investor relations section of an organisation's website, such communications would always be tailored and targeted appropriately to be relevant to the expectation of the users. It is anticipated that through the production of an <IR> report, this would prompt investors (or providers of financial capital) to have a greater ability to tailor their questions to specific elements of <IR>.

In addition, we support that the framework allows linkage between reports and communications as this reduces repetition across an organisation's reporting 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?*

We would support a database containing potential indicators and measurements for reference as this gives appropriate guidance without losing the flexibility currently in the Framework. Such a database may also promote comparability between organisations when standard indicators or measurement methods are used.

We recommend including international frameworks, such as the UN Global Reporting Initiative (G4), UN Global Compact, Millennium Development Goals and industry body frameworks including the Consumer Goods Forum and British Retail Consortium's 'A

Better Retailing Climate’.

As a member of the pilot programme, we would be happy to support and contribute as required to the development of any such database.

Other

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

The Framework’s current clarity on the use of a principles based approach and the primary audience being providers of financial capital should be retained in future drafts.

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?*

We support the inclusion of six types of capital for consideration along with the recognition that their relevance will vary depending on sector and business strategy. The guiding principle for reporting being the long term relevance to the providers of financial capital.

We support paragraph 2.19 – 2.21, where capitals in the framework are provided as a benchmark for an organisation to consider all forms of capitals used, but that the framework does not require all capitals to be adopted by all organisations. This allows an organisation to categorise the capitals for its own purposes based on their relevance and materiality.

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

The Framework’s existing clarity on a comprehensive consideration of capitals resulting in a materiality/ relevance based approach to reporting should be retained in any future drafts.

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 support the definition that a business model is an organisation’s chosen system of inputs, business activities, outputs and outcomes that aims to create 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?*

We support the definition that outcomes are the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs. These must be considered in the context of their short, medium and long term impact on the interest of providers of financial capital.

The framework describes in paragraph 2.36 outcomes require organisations to consider the capitals more broadly than those that are owned or controlled by the organisation. We support this principle. However, in practice there may be difficulties in collecting this information and this will evolve over time within organisations.

The key areas for consideration are: -

- the time required to collect relevant data and to ensure its reliability through the development of processes and controls;
- the ability to collect such information, for example, contractual relationships with suppliers may need to be changed; and
- any additional costs to the organisation.

Some organisations currently use third parties to obtain data on the indirect impact of their business model, for example, the impact of goods and services from suppliers. We consider that although such data may not be to the same level of detail as internal information or information collected directly from suppliers, it may be appropriate in the context of an integrated report. However, the use of third parties to collect such data will incur additional costs to an organisation.

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 support the comprehensive definitions of a business and resilience as provided in Chapter 4E. In particular the references: -

- features that can enhance the effectiveness and readability of the description of the business model (as detailed in 4.23);
- The need to apply tests of materiality, relevance and conciseness for reporting (as detailed in 4.26).

We consider that these tests could have greater emphasis within Chapter 4E. However the suggestion of using the top level of information used by the senior management of the business is helpful.

We would find it helpful if there was best practice guidance or examples available in a supporting database to the Framework and, as a member of the pilot programme, we would be happy to contribute and support the development of any such database.

Other

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

The Framework discusses the outcomes, however, does not specifically require organisations to communicate its financial strategy and therefore the method of return to the providers of financial capital. It may be useful to also include discussion on this in the Content Elements of the Framework.

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 support the proposal that 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. We support the use of judgement by senior management and those charged with governance in determining whether a matter is material.

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

We support the process to determine materiality and the proposed disclosure of such process as this will provide clarity to the user as to why organisations have identified certain items in their business model.

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 support the proposal that reliability is enhanced by mechanisms such as robust reporting systems, appropriate stakeholder engagement and independent external assurance.

Organisations have an obligation to ensure that published information is accurate and reliable and, as a minimum, this information must be subject to appropriate internal controls and some form of internal review.

The process undertaken by an organisation to ensure reliability should be concisely explained either within the integrated report or through linkage to other communications made by the business. We note, if a UK company chooses to produce an <IR> as an enhanced annual report, such an explanation could be captured as part of the corporate governance report.

We do not support that external assurance is required in all cases to give comfort over reliability. Although, we do consider organisations will choose to have information independently assured if the information is material to an organisation's value chain.

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

As noted above, in practice many companies will choose to have information independently assured, especially where such information is material to an organisation's value chain. However, independent external assurance should not be a requirement of compliance with the Framework.

Other

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

We support the proposals on consistency and comparability as detailed in 3F and recognise the importance of benchmarking data and standard ratios. However in practice, monitoring year on year progress may be more meaningful to users of an <IR> as different business models (even within the same sector) sometimes make direct comparisons on non-financial data of limited value.

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).

No further comment.

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 consider that any responsibility statement should be voluntary in line with the current wording in paragraph 5.18. This is on the basis that the Framework should remain principle based and therefore not introduce requirements that are regulatory and/or compliance based in nature. In addition, the requirement for such a statement being made may be of limited value if not within the underlying regulation of a territory.

We note, if a UK listed company chooses to produce an integrated report as their annual report, this will be under the UK corporate governance code and therefore would include a statement that the report is fair, balanced and understandable. In addition, the Directors would approve the report. This would provide sufficient evidence of review by those charged with governance to the users of the information.

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

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?

As noted above, we do not consider it is appropriate to include specific guidance over the assurance that should be obtained over an integrated report within the Framework. Management and those charged with governance have a responsibility to ensure the reliability of information and the robustness of processes and controls. The method and level of assurance to be obtained over information should be judged by management and those charged with governance.

We support the use of independent external assurance where appropriate. However, we do not consider it should be mandatory as such a requirement is regulatory in nature and against the current principles based approach in the framework. We also consider that requirements for independent external assurance could reduce the level of adoption of integrated reporting globally due to the additional time and cost required. It may also not enhance comparability or reliability of reported information if not standardised under regulation.

We do however consider the Framework could include a requirement to disclose the process undertaken by an organisation to ensure reliability of data presented and the assurance obtained.

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.

No further comment.

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).

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 consider the current content is appropriate and that a principle based approach as adapted by the Framework will meet the needs of investors over the long term. Such approach ensures the Framework remains sufficiently flexible to allow ongoing changes to the content of the integrated report (when appropriate) to maintain a concise, relevant report, with material information for key investors.

The development of integrated reporting must involve the investor community, auditors and regulators to ensure that the Integrated Report meets their requirements, without the addition of less relevant disclosures for comparability or regulatory purposes.

The success of the framework is dependent on ensuring that initiatives being developed by other bodies who are currently considering narrative reporting, including BIS and the European Commission, are in line with the IIRC. Given the current principles based approach adapted by the Framework, this should be possible.

Overtime it is also likely sectors will develop a common approach to areas such as KPIs. Again, the principles based approach facilitates this, as such information can be captured on best practice databases.

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?*

We have included below four topics that we recommend are given priority.

Business Model (to help capture all areas of the value chain and give ideas of best practice examples and disclosure ideas)

Defining and reporting materiality (to help both businesses and their stakeholders to understand priorities)

Suggested social and environmental matters and performance (to include examples of approaches and measurements (KPIs) used by other companies and sectors in Annual Reports)

Linkage of <IR> Framework to recent corporate reporting developments (to help organisations ensure regulatory requirements can be met at the same time as communicating under <IR>)

Other

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

No further comments.