

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 wonder whether readers and users of the framework will understand the notion of "principles-based requirement". A "principles-based" approach provides a conceptual basis for reporting against particular objectives whereas a "requirement" is more in

keeping with a rule with which reporters are required to comply. We wonder whether using "principles-based" and "requirement" in the same phrase mixes two concepts that are more helpful and instructive when kept separate. We suggest that what you might mean is that companies are required to apply the principles set out in the Framework for the purposes of complying with the requirements. You will see that in the CDSB Framework, reporters are required to apply the principles in determining, preparing and presenting disclosures in accordance with the requirements of the Framework. Therefore, in the case of the IR Framework, we would suggest for example, that rather than presenting connectivity as a requirement in paragraph 3.7, the principle of connectivity should be applied when conforming with all of the requirements of Integrated Reporting. In other words, the principles ARE NOT the requirements, but the principles inform the way in which the reporter conforms with the requirements.

We observe that there is some duplication between the requirements as represented in black italic text. For example, the requirements at paragraph 4.5 (bullet 2) and 4.10 are both about the way in which the governance structure supports value creation. Similarly, there is duplication between the requirement at 3.2, which asks about the organization's strategy and 4.18, which asks about where the organization wants to go and how it intends to get there. There might be opportunities for the framework to be simplified and streamlined by reducing duplication between the requirements.

We suggest that the requirement in paragraph 4.4 is deleted. Requiring companies to prepare a "stand-alone" integrated report arguably adds another report to existing reports. We appreciate that this might not be your intention, but some of our members have expressed serious technical and cost-related concerns about the prospect of adding another layer to reporting in the form of an integrated report. We suggest that the IIRC should encourage the process of Integrated Reporting and integrated thinking to be applied to the production of all corporate communications. The outcome of the application of that process should be reflected in corporate reports in whatever format a company can or must present them given the regulatory context in which they operate and their own objectives and preferences for presenting information. This approach would not prevent companies from preparing a stand alone integrated report, but it would provide those that cannot or will not with the opportunity and flexibility to evolve their corporate reporting as intended by IIRC. At this stage in the development of Integrated Reporting, we think that the requirement to prepare a stand alone integrated report could be a barrier to participation. The CDSB Framework provides requirements that are to be applied for the purposes of preparing disclosures about climate change in mainstream reports. In other words, conformance with the requirements of the CDSB Framework does not involve the preparation of ANOTHER report; it is designed to encourage better reporting in existing reports. This approach means that the Framework is adaptable and can be adopted by national regulators or others as a means of encouraging decision-useful disclosures. For example, we can envisage the IIRC Framework being referenced by the EU as a means of compliance with the prospective amendments to the 4th and 7th Directives or by BIS in the UK as a means of compliance with the requirement to prepare a Strategic Report. Paragraph 1.18 actually suggests that this IS the approach you intend to take – "the IR process is to be applied continuously to all relevant reports and communications". We do not think you can have it both ways – i.e.: apply to the framework to all relevant reports AND require companies to prepare a stand-alone report. We think it should be one or the other and the former is our preference.

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?*

Not entirely, as explained in the points below:

a. we do not agree that an integrated report has to be a separate stand alone report as explained above and we would therefore suggest that the words "In addition, it is anticipated that a stand alone integrated report will be prepared annually in line with the statutory financial reporting cycle" are deleted.

b. we do not find the words "organizations may provide additional reports eg: financial statements, for compliance purposes" necessary. The fact is that organizations WILL continue to prepare such reports as are required for compliance purposes. We think what you might mean to say is that where there is a conflict between regulatory requirements and the IR Framework, or where the latter requires more than the former, the nature and effect of the conflict or difference should be explained. An example of such a conflict might include regulatory constraints on the provision of forward-looking information and the Framework's guiding principle of future orientation.

c. in paragraph 1.19, rather than saying "the IIRC aims to complement material developed by established reporting standard setters...", we think the framework should say "material developed by established reporting standard setters complements the IR Framework by providing indicators, measurement tools and guidance that may help companies to implement integrated reporting...".

d. in paragraph 1.20, we would not say that "IR differs from other reports and communications in a number of ways" – this is inconsistent with IR's messaging about prompting an evolution in reporting. In fact, much of the content required by the Framework is already required by and/or covered in existing reporting frameworks and company communications. We would say in paragraph 1.20 "IR builds on developments in financial and other reporting by taking existing content and adding an emphasis on conciseness, strategic focus, future orientation, connectivity, capitals, business model, value creation....etc"

We hope that the next edition of the Framework or supplementary material will particularly explain the nature of the relationship between the IR Framework and financial statements and management commentary as well as the relationship between the IR Framework and the King Code of South Africa and one and two tier corporate governance regimes.

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 agree that such a database would be very helpful and we are in the process of developing such a database ourselves, which will be a free, public resource and will be made available to IIRC and others. Under our approach, it would not be necessary for the IR or CDSB frameworks to identify which sources of indicators etc. should be used for integrated or climate change reporting. Rather, the database would be populated and made available through an open or crowd sourced approach so that providers of measurement tools etc could "post" their tools in the database. Our database will be moderated to check proposed entries and at this stage in development no value judgment will be attached to the relative usefulness or reliability of each tool/indicator etc.

Other

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

Paragraph 1.2 states that an integrated report should be concise. It would be helpful if the final framework or supporting material could state how an integrated report is to be made concise and whether and to what extent other guidance or commentary, such as the FRC's Cutting Clutter report, might help to achieve conciseness. We would also welcome guidance on how conciseness should be balanced with completeness and on the inter-dependence between conciseness and materiality.

We note from paragraph 1.6 that integrated reports are prepared primarily for providers of financial capital. We welcome the fact that the IIRC has convened an investor network and encourage the IIRC to say more in the Framework or accompanying material about exactly how investors are likely to use integrated reports.

Paragraph 1.10 states that the Framework is intended for use primarily by private sector, for profit companies of any size. Elaboration on this point would be helpful so that readers can understand whether integrated reporting is intended to be voluntary, mandatory, to whom it will apply and when.

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 broadly support the concept of the capitals although some of our members have expressed concern about the use of the term "capitals" rather than resources as "capitals" reinforces the dominance of the accounting and finance discourse, notwithstanding that some finance directors may not currently recognize the resources described in the framework as "capitals" or matters on which they can report at the moment.

We have no objection to the categorizations suggested by the IIRC or to the suggestion that they should be used as a benchmark for reporting. However, we do not agree with the requirement in paragraph 4.5 for an organization to report the reason why they consider any of the capitals to be immaterial in its particular circumstances. First, regardless of the circumstances of an individual organization, all of the capitals are in fact material to value creation in the long term. Secondly, we doubt that there are many, if any, companies that would be prepared to disclose that they did not consider natural capital (for example) to be material to the way in which their business creates value. The capitals form part of a single system and all capitals are interdependent. To suggest that they can be reduced to those that are material and those that are not is completely contrary to the notion of integration and holism that we think your framework seeks to encourage. We would suggest that it is sufficient to require a company to report on:

- the capitals from which they draw inputs;
- the way in which the capitals are transformed, depleted or enhanced through the business model;

- the resulting outcomes for the capitals; and
- the way in which the organization's future ability to create value might be affected by the answers to bullets 2 and 3 above.

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

No answer provided.

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 of the business model. We note that it relies on established "logic models" dating back to the 1970s. Like some of the logic models, we suggest that in order to add further definition "inputs and activities" could be presented as "planned work" and "outputs and outcomes" as intended results. Also, we wonder whether the definition is sufficiently flexible to accommodate the business models of all types of organization that might wish to apply integrated reporting.

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?*

Not entirely. We have two concerns. First, we would say that outcomes are changes to rather than consequences for something or some things. Those changes can be direct or indirect and can be experienced over different timescales. We would suggest a slight variation on your definition as follows to stress that outcomes are about changes rather than consequences as the consequences cannot always be known by the reporting organization and the framework intends the consequences to be assessed by providers of financial capital, rather than by the reporting organization. We therefore suggest the following revised words: "Outcomes are the direct and indirect changes that take place as a result of the organization's business activities, including positive and negative changes to the capitals over the short, medium and long term and positive and negative changes for the organization, its consumers and stakeholders, for society and the environment. Outcomes of the business model are normally intended or planned but can be influenced and affected by external circumstances and systemic risk". Secondly, we note the GRI's new G4 guidelines ask organizations to report on their social, environmental and economic "impacts" (rather than outcomes). We think it might be helpful for the final framework or supporting material to explain how, if at all, outcomes differ from impacts.

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)?*

No answer provided.

Other

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

No answer provided.

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?

Not entirely. We agree that materiality cannot and should not be determined by the reporting organization alone and that stakeholders and report users have an important role to play in determining materiality. For clarity, the requirement at paragraph 3.22 could be amended to read "An integrated report should provide concise information that is material to the intended audience for assessing the organization's ability to create value."

We think that the IR Framework should acknowledge that there are multiple definitions of materiality and that different stakeholder groups attach different meanings to materiality. In particular, materiality may have a different meaning for the purposes of financial and non-financial reporting respectively and that meaning may be informed by definitions or frameworks used for financial and non-financial reporting respectively and/or by feedback from stakeholders. Some of our members thought that the IR Framework was trying to bridge the gap between different approaches to materiality. We thought it would be helpful if the final IR Framework could explain how companies should approach materiality given the multiplicity of definitions, frameworks and approaches on the subject. We believe that comparability will be sacrificed if multiple approaches to materiality can be used.

Given that the intention is for a company to provide information that is material to the assessment BY OTHERS of the organization's value creation potential, we find it strange that paragraph 3.23 identifies a matter as being material if it is of relevance and importance to the senior management and those charged with governance. Perhaps it would be more helpful to say in paragraphs 3.23 and 3.24 that management and those charged with governance should work on the presumption that matters are, by definition, material to the intended audience if they affect or have the potential to affect the organization's strategy, business model or one of the capitals it uses. Are the words "materiality assessments need to be performed at least annually" in paragraph 3.27 intended for the reporting organization or for providers of financial capital?

Although we think it would be preferable, there is no reason why materiality for IR purposes has to be the same as materiality for financial reporting purposes. However, we note that in the IASB's conceptual framework, relevance is not part of the materiality process (as suggested by paragraph 3.25 of the IR Framework). Materiality is applied in order to constrain reporting of matters that have been identified as relevant.

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

We contend that climate change is material and that there is no need for a materiality determination process or an assessment of likelihood occurrence to be undertaken in order for climate change to be identified as material. There is plenty of information from reliable sources in the public domain to support the materiality of climate change to organizations and providers of financial capital alike. Having said that, the prominence of climate change in an integrated report will depend on the application of conciseness and completeness as well as on materiality determination. Furthermore, as explained in our answer to question 24, we are not sure that the materiality section makes sense in the absence of a context for integrated reporting.

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?

The title of section 3E is "Reliability and completeness", but the first paragraph under that section (paragraph 3.30) turns immediately to material matters and contains the requirement for an integrated report to "contain all material matters, both positive and negative and without material error." We suggest that there is no need for the requirement at 3E to say that the integrated report should contain material matters as that is addressed elsewhere in other requirements. We think the requirement at paragraph 3.30 should read "information in an integrated report should be reliable" and then go on to define reliability.

We think there would be merit in the framework aligning more closely with the IASB's Conceptual Framework. Reliability was specified as a qualitative characteristic of useful financial information in the pre-2010 version of the IASB's conceptual framework. From September 2010, that characteristic was changed to "faithful representation", which shares the features of completeness, freedom from error and neutrality all covered in Section 3E. We are not sure why the IIRC framework departs from the IASB's notion of faithful representation. Paragraph 3.31 says that the reliability of information "is affected by" its balance and freedom from material error. We think it would be more helpful for the framework, like the IASB's conceptual framework to define what reliable means for IR purposes. We do not understand why, for example, parts of paragraph QC15 have been selected to describe freedom from error, nor why the word material has been added without defining a materiality threshold for error. Similarly, we do not understand why "balance" has been used in paragraphs 3.33 and 3.34 rather than the established language of neutrality in the IASB's conceptual framework, particularly when the words in paragraph 3.33 are almost identical to the words in paragraph QC14 of the IASB's conceptual framework.

Where concepts already used in financial reporting are adopted by the framework, they should be adopted in whole. Otherwise the nature of the more selective approach the IIRC seems to have taken should be explained so that differences in applying a similar characteristic for financial and integrated reporting purposes can be understood by reporting companies. Rather than making small changes to concepts already used for financial reporting that apparently add no meaning to those concepts, we recommend that, as CDSB has done (see for example paragraphs 3.13 – 3.19 of our Framework), the definition of concepts from financial reporting that can be applied to Integrated Reporting is kept as close to the original definition as possible and that the IR Framework concentrates on explaining the application of that of that concept for IR purposes. Furthermore, whilst we understand the IIRC's reluctance to reference the work

of other reporting standard setters and initiatives, we strongly encourage referencing specific standards, where, as in the case of section 3E, whole sentences have been copied.

We wonder whether it would be helpful for the final framework to set minimum requirements for the purposes of evidencing reliability and materiality so that all integrated reporters conform to one or a limited range of approaches. Similarly, we wonder whether the IIRC should consider specifying the types of approach or frameworks that should be used by integrated reporters in order to meet minimum criteria for ensuring reliability.

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

No answer provided.

Other

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

No answer provided.

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 answer provided.

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?

Any requirement for those charged with governance to provide a statement should be consistent with and should limit the imposition of further burdens in addition to those already prescribed by national codes and laws. For example, in the UK such a statement would be acceptable only as an addition to existing compatible provisions, such as Rule 7.2 of the Financial Conduct Authority's Disclosure and Transparency Rule.

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

There is insufficient acknowledgment in the framework that the actions and decisions of those charged with governance might already be influenced, constrained or dictated by

governance provisions contained in laws or codes prescribed by national regulators. We invite the IIRC to consider adding text or supplementary material to the framework that explains how those charged with governance should reconcile the duties imposed on them by national regulators with the expectations of Integrated Reporting.

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?

From a practical point of view and given the need for assurance to be based on suitable subject matter and criteria, we do not think that it is practicable or possible for assurance to be obtained for the whole of an integrated report. There are aspects of Integrated Reporting that are already covered in management commentary and certain statutory disclosures; presumably assurance obtained under existing International Auditing and Assurance Standards for those aspects of reporting may be referenced for the purposes evidencing assurance of parts of an integrated report.

Our experience of climate change-related reporting suggests that the evolution of reporting will be assisted by allowing a wider variety of "checking" approaches to information contained in an integrated report than has traditionally be acknowledged by the accounting profession. In addition to assurance as understood and applied by the accounting profession, we encourage the IIRC to consider the relative merits of allowing "assurance" to be obtained through multiple channels including verification procedures applied by consultants specializing in particular types of information (eg: greenhouse gas emissions). We also encourage the IIRC to explain whether and to what extent the "combined assurance" approach that has been adopted for the purposes of King III or verification secured for GRI reporting purposes may be applied more generally to Integrated Reporting.

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.

We are not sure what purpose section 5E serves. It makes various statements of fact, such as that organizations use a variety of internal controls to check that they have complete and reliable information. Paragraph 5.19 goes on to list the sorts of approach companies currently use to reassure those charged with governance that information is complete and reliable and to say that those approaches are important. Paragraph 5.20 makes the statement of fact that some organizations seek independent assurance to enhance credibility. Paragraph 5.21 confirms that the framework does not set out criteria for conducting assurance engagements. There is nothing in Section 5E to tell a company what it should do. It simply makes factual statements about certain current practices and says that they are important without giving any indication as to their relative merits for IR purposes. We suggest that the whole section is deleted OR that the IIRC sets out what it considers necessary for an integrated report to be regarded as credible. Paragraph 5.19 suggests that credibility is linked with completeness and reliability and we therefore wonder why section 5E is needed in addition to section 3E.

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 agree that the role of technology is to enable a level of Connectivity of information (as stated in paragraph 5.35). Established technologies such as extensible Business Reporting Language (XBRL) enable not only the connectivity and comparability of information within an integrated report, but also between other reports across corporations and years. We therefore suggest that the IIRC considers whether to create an XBRL taxonomy referencing existing taxonomies (dependent on referencing other standards in the framework) or to provide guidance on consolidating existing taxonomies (i.e. digital representations of standards) to create an integrated report. The Council may also consider the use of inline XBRL to enable a human-readable format without the need for specialist software.

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 very much support the objectives of Integrated Reporting and congratulate the IIRC for developing a framework that helpfully brings together many elements of existing reporting practice. However, as noted in our answer to question 24 below, we contend that the IR Framework will be successful and make a difference only when and if the context for the application process set out in the framework is made clear. That context will apply equally to reporters and users of information.

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. To explain the link between IR and existing reporting mechanisms. For example, given that some of the content elements of the Draft IR Framework are the same as or similar to those required in management commentary/MD&A, what more or different does Integrated Reporting require? Where a company considers it material to report on past and future water consumption (under the heading natural capital), what, if anything, would it be required to report over and above GRI indicators on water? How should the existing multiple approaches to determining materiality be used when preparing an integrated report?

2. To explain the exact purpose and context for IR (see question 24 below).

3. To be clearer about the boundaries of integrated reporting. You may wish to refer to CDSB's discussion paper on organizational boundary setting for background to some of the issues we think need to be addressed.

Other

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

We very much support the IIRC and its work and the development of the IR Framework. We share the IIRC's objective to prompt an evolution in corporate reporting and we share some of your members and contributors.

As noted above, we think that there are opportunities for streamlining and simplifying the IR Framework. As a suggested start, we attach as an appendix a suggested one page view of Integrated Reporting.

Many of the concepts set out in the Draft IR Framework have already been proposed and developed by others over the years, for example, Forum for the Future and the Sigma Project have both published guidance very similar to what the Draft IR Framework says about the capitals. We think that if the IIRC is to succeed where others have failed to gain traction for similar ideas, the context for and objectives of IR must be clearly presented. In a context-based approach to Integrated Reporting, value creation and materiality would be interpreted by reference to thresholds and parameters established through stakeholder engagement and evidence about the carrying capacity and limits of capitals on which stakeholders and companies rely for well-being and continuance. Interconnections between corporate activity, society and the environment and the purpose of the corporation would therefore understood in terms of what the corporation, society and the environment can tolerate and still survive.

As it currently stands, an integrated report simply requires a company to report THAT it uses, changes and affects capitals. There are no stated or even implied limits to the use of those capitals in the framework or other material produced by the IIRC. Paragraphs 2.28 and 2.39 refer to the fact that planetary limits can render a business vulnerable (which we regard as an unnecessary statement of the obvious), and that IR supports value creation within planetary limits and societal expectations. From a reporting point of view there is no evidence of the nature of that support and no requirement for a company to make a statement about the actions it has taken to ensure that it is "creating value" within those limits and expectations and that it is innovating or exercising restraint in order to protect those limits and expectations.

We respectfully submit that with all of the power assembled through the IIRC's Council, the IIRC could make much bolder and more ambitious statements about the fact that IR MUST show how organizations are creating value that supports sustainable development and financial stability objectives and that serves the public interest. In the long term, we suggest that there is also a role for the IIRC in requiring providers of financial capital to demonstrate that they are making decisions and allocating capital actively to support organizations that do so.