EnBW
Energie Baden-Württemberg AG

EnBW Energie Baden-Württemberg AG · 76180 Karlsruhe · DEUTSCHLAND

Professor Mervyn E. King
Chair
International Integrated Reporting Council

Submitted via:
www.theiirc.org/consultationdraft2013

Durlacher Allee 93
76131 Karlsruhe
76180 Karlsruhe
DEUTSCHLAND
Phone +49 721 63-06
Fax +49 721 63-12725
www.enbw.com

Registered Office: Karlsruhe
Local Court Mannheim
Number HRB 107956
Tax number 35001/01075

Name Dr. Lothar Rieth and Christoph Dolderer
on behalf of the German IIRC Roundtable
Department Sustainability / Group Accounting
Phone +49 721 63- 12281
Fax +49 721 63- 13346
E-Mail l.rieth@enbw.com; c.dolderer@enbw.com

Consultation Draft of the International <IR> Framework

Dear Professor King

July 15, 2013

We would like to thank you for the opportunity to provide the International Integrated Reporting Council with our comments on the Consultation Draft of the International <IR> Framework.

The German IIRC Roundtable, a regional network of the Pilot Programme Participants BASF, EnBW, Flughafen München and SAP, is pleased to contribute to the development of Integrated Reporting. We strongly believe that the creation of a uniform understanding of Integrated Reporting is very important for the success of IIRC's mission. As until recently no standards for Integrated Reporting have existed, we are pleased that the IIRC has developed an Consultation Draft Framework which supports companies, that have decided to embark on the journey of Integrating Reporting with the goal to firstly rethink internal processes of preparing the most material information and secondly to publish an integrated report that provides an added value to all its stakeholders. We believe that the IIRC is on the right track to achieve the objectives being set. However, we recommend considering in particular the following aspects in the context of the finalization of the Framework:

- The IIRC should accentuate that an integrated report is the primary communication tool of a company
- For the success (and the implementation of) the concept of Integrated Reporting broad support and acceptance among corporations and stakeholders is required. In this context the IIRC should act to ensure the compatibility of the IIRC framework with further central standards in the finance and sustainability community (such as G4 and IFRS).
- We recognize the importance of providers of financial capital as one of the primary users of an integrated report. The traditional reporting will only change if this important stakeholder group is convinced of the concept. However, we recommend to explicitly mention other "relevant stakeholders" as

report users as well since we believe that the concept of Integrated Reporting should be based on a stakeholder approach and go beyond the traditional shareholder value reporting approach

- We recommend that one of the core concepts of Integrated Reporting "value creation" needs more specification to avoid further confusion. It should be stated that values can also be measured in financial figures as well as with other measurement parameters
- In general external assurance can enhance the credibility of integrated reports. Therefore the IIRC should act to ensure the development of transparent, uniform and standardized assurance standards.
- In general, it would be desirable if all IIRC documents (including background document) could be as concise as possible (including avoiding redundancies!)

Chapter 1: Overview

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 (paragraph 1.18-1.20).

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

The German IIRC Roundtable strongly believes in the idea of „one report" that was created at the very beginning of the IIRC initiative. Future success of a company depends on how it navigates the social, environmental, and economic contexts in which it operates. We therefore favor the idea of compiling all essential information together in one single report, especially to highlight connections between financial and non-financial performance. This connectivity is the basis for establishing integrated thinking in organizations.
Compiling data from several resources is burdensome for readers, connections between financial and non-financial data are diluted – it would be a step backwards to not have one report. Additional information that does not pass the threshold of materiality can be published via other communication venues, such as the corporate webpage, other brochures etc.

Having said this, we recognize the importance of providers of financial capital as one of the primary users of an integrated report. The traditional reporting will only change if this important stakeholder group is convinced of the concept. However, we recommend to explicitly mentioning other "relevant stakeholders" as report users as well since we believe that the concept of Integrated Reporting should be based on a stakeholder approach and go beyond the traditional shareholder value reporting approach

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 general, we agree with the introduced concept to the capitals. We are well aware that the **long-term success of companies is very much dependent on factors that go beyond pure financial performance**. As a consequence we strongly support the concept to capitals as we believe that the categorization is a useful basis to identify and – if possible – to measure the value drivers within a company. However we believe that the concept can be further improved. Questions are raised concerning **the presentation of the capitals within the report and the measurability of the specific capital categories**. It should be stated more clearly whether an intense examination of the capital concept is necessary and it should be explained more in detail if, and to what degree, the capital categories should be described and also possibly monetized.
Overall **additional guidance** on the **presentation and measurement of the interdependencies** between the six capitals as well as what the suggested application of the capital model as a benchmark or theoretical underpinning implies would be recommendable.

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 general, **we agree with the definition of the business model as it fits to all kinds of businesses.** In addition, we welcome that outcomes are explicitly included in the definition of the business model as this is an area that is often neglected.

However, the fundamental question that is not yet sufficiently answered is: **What is the definition of value in the context of integrated thinking and integrated reporting?** In 2.37 the definition is "Value created in this way manifests itself in financial returns to providers of financial capital and also in positive or negative effects on other capitals and other stakeholders." **With this definition it seems that value can only be expressed in financials**; value related to the other capitals remains vague and unclear. It is not clear what is considered as value creation or value destruction with regards to the other capitals (more guidance on appropriate measurement parameters would be helpful). Within the current framework this is consistent with the focus on the intended report user being primarily the provider of financial capital, yet does not meet the needs of all relevant stakeholders, especially customers, employees, local communities and civil society organisations or other providers of external non-financial capitals.

In addition, it is not clear **whether the concepts of value and outcomes are different and how and in what regard** they are different from each other. Nor is it fully clear and understandable what the difference is between value, outcomes, and impact as used in the G4 guidelines of the Global Reporting Initiative. Therefore, it would be good to have a **convincing definition of "value" in the glossary** and a consistent use of the term throughout the framework. To make the definition of "value" and the goal of integrated thinking and reporting more tangible, **we would welcome the explicit introduction of the concept and term "sustainability" or another equivalent term** that describes the concept and context in which value creation or destruction is to be considered. Examples similar to the one given in section 2.43 would support this approach.

In general, we welcome a **certain flexibility related to the time frames short, medium and long term,** however, we also believe a more specific description is required, as short, mid and long-term can be defined as very **different time frames** not only for the various capitals and stakeholders, but also for **different industries**. Specifically with regards to the non-financial capitals, it is important to underpin that long term effects need to be considered over years (and not months). It is important for comparability reasons to set expectations towards the definition of the time frames.

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 approach to **focus on material matters** in general. **We recognize the importance of providers of financial capital as one of the primary users of an integrated report. The traditional reporting will only change if this important stakeholder group is convinced of the concept. Therefore, we recommend to explicitly mentioning other "relevant stakeholders" as report users as well since we believe that the concept of Integrated Reporting should be based on a stakeholder approach and go beyond the traditional shareholder value reporting approach**

Otherwise the reporting organization would probably fail to identify material matters which are of high relevance to stakeholders and thus could have significant impact on the organization. Materiality shall not only be defined by the investor, but as well by other stakeholder groups to make sure that the centerpiece of the report is as "integrated" and "meaningful" as possible.

We do not see the necessity that the "interests of providers of financial capital are likely to be aligned with the public interest". There is a need for some further elaboration on whether the IIRC is aiming at a **materiality matrix**, composed of the various stakeholder expectations or whether it the materiality check should be limited to the main value creation processes of the organization (see Background Paper on Materiality, see section "Intended users of integrated reports", p. 1-2).

Furthermore the materiality definition of the IIRC should not only take into account the **impact on** the reporting organization but also the positive and negative **impacts of** the reporting organization in order to have a balanced picture of current and future risks and opportunities.

We support the IIRC's approach in emphasizing the **involvement of senior management** and those charged with governance. The process of determining material matters has to take into account both perspectives: the perspective of relevant stakeholders (this of course includes providers of financial capital) and the assessment of senior management and those charged with governance.

We would also recommend reconsidering the labeling of the two axes (see figure 6, p.31). The model with the axis labels "Magnitude of effect" and "Likelihood of occurrence" very **much focus on risk minimization**. Other materiality matrices (like the definition of GRI G4) consider a broader stakeholder perspective and a **balanced approach of current and future risks and opportunities** (not only impact on but also impact of reporting organizations). This could also lead to a better compatibility of currently diverging definitions of materiality in different reporting standards. Last but not least, a clear reference to sector-specific issues and indicators would assist companies in preparing an integrated report.

Other

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

In general, we support the principle of "**connectivity of information**". Connecting different elements in a report helps depicting a comprehensive value creation story for companies. **Connectivity can specifically help explain why it is necessary to consider all capitals** and not only financial capital, e.g. by showing how certain KPIs/indicators influence others and in this way are material to the company. Although we support the idea that not all capitals need to be monetized, connectivity can help drive this effort to establish integrated thinking in organizations that are primarily driven by financial indicators (more explicit guidance on the connectivity issue would be helpful!).

However, the Consultation Draft Framework currently reads like everything needs to be connected to everything in an integrated report. This bears the risk of confusion, lack of structure and redundancies in a report, which could lead to a conflict with the principle of materiality and conciseness. **The framework should provide clearer guidance *on how to decide*** what needs to be connected to what in order to support the process of sustainable, short, mid and especially long term value creation and to provide differentiation opportunities for a company. These combinations, inter-related elements and dependencies need to be closely linked to the individual value creation (story) of each company. It will be an opportunity and a challenge to apply the principle of materiality to this guiding principle, one possible option would be to focus only on certain connections.

In addition, we believe that **integrated thinking constitutes the central basis for integrated reporting**. We think that in this context, section 3.9 is too weak ("…introducing ways to improve integrated thinking within the organization can help drive the <IR> process.") and should be better aligned with the main section on Integrated Thinking 1.15 to 1.17 and 1.8 especially with respect to the long term view of an organization's continuation and performance.

Chapter 5: Preparation and presentation

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?

Assurance should cover integrated reporting as a whole, since it will be difficult to separate financial and extra-financial information if the concept of integrated reporting is implemented the way it is described in the Consultation Draft Framework. Robust (data) management systems for sustainability, non- or extra-financial information will lead to KPIs or qualitative information that should be subject to external assurance.

An additional crucial question that is so far not resolved concerns how the IIRC's framework and therefore how corporations as users of the framework should deal with **material topics which are not in the direct sphere of influence of an organization**. It has to be specified how organizations have to deal with issues of this kind, where they do not have control nor significant influence on, since organizations have to provide evidences for all reported information/data.

Yours sincerely

On behalf of the German IIRC Roundtable

Dr. Lothar Rieth & Christoph Dolderer