Comments on Consultation questions Draft IIRC – GBS

Key points

IR is openly intended as a process that should result in a report primarily prepared for the providers of financial capital (i.e. equity and debt holders, including all the creditors and fund managers). This approach is clearly in line with the shareholder view and a market-oriented perspective and it consequently privileges the information needs of a well-identified category of stakeholders. On the other hand, the Framework proposes a concise and, most of all, comprehensive approach to corporate communication, which promotes the connection among information on such many topics that the resulting report seems to be adequate to satisfy the knowledge needs of all other stakeholders too. In doing this it seems there is a expectation/gap that needs to be addressed. The focus towards investors could easily let IRRC to become captured by top managers, financial entities and consultants, so that accountability finalities (and therefore general acceptance of the IRRC) could be seriously jeopardized. Nevertheless, we appreciate that the IIRC is undertaking an effort to disclose a more holistic set of information.

Our main concern is about the claim “integrated”. Has the framework being conceived and developed in order to complement Financial Statements and be an integral part of the System connected with the Annual Report, like the Business Review/Management Report (in Italy Relazione sulla Gestione), in part for social and environmental performance the ”Not-Financial Statement” of the proposal for a Directive of European Parliament and of the Council, or the Management Commentary of the proposed IFRS framework (a narrative report that provides a context within which to interpret the financial position, performance and cash flow)? Which are the chances of being accepted by National Regulators as a sophisticated version of the Business Review/Management Report, realistically limited to large companies with adequate resources? Or is it just another, smarter form of Report in addition to/complementing Sustainability Reports?

Overall the IR framework does not seem focused on the sustainability issues, not on the different stakeholders points of view. It does not specify the meaning of value creation and how this relates to the six capitals. Finally it does not indicate a standard disclosure checklist. All these weaknesses need to be addressed.

N. 1

a) The IR should be framed on the basis of a more in-depth stakeholders engagement principle. It refers to the possibility to consider, equally, to each stakeholder and engage with their needs, despite its financial relevance for the organisation. The reason is because all the stakeholders, not just investors, need information.

Stakeholder engagement: is that included in “Stakeholder responsiveness” Guiding Principle (3C)? If so, it should be better specified. If not, stakeholder engagement may be added as a Guiding Principle or as a premise of stakeholder responsiveness, given that the organisation should regularly consult its stakeholders on the ability of the integrated report it has actually published and divulged to satisfy their information needs. The essential question is that, though everybody need information, why to privilege investors? It is essential to decide if IR is only a means to help managers and shareholders or an accountability’s instrument for all converging stakeholders (obviously shareholders and investors included)

b) Value creation. The IIRC should defines what does it mean value creation (financial value creation and not-financial value creation particularly for public and not-for profit organisations). Once this is outlined then it should be considered how to embed the principle of value creation within the IIRC framework, i.e. obtain a profit for companies but considering social and environmental impacts; and create social and environmental value, for public and not-for profit organisations, within a long term financial equilibrium.

There are only quantitative values or also spiritual, cultural, psychological, biodiversity and so on? IR says nothing about it.

N. 2

We partially agree with the suggested approach.
The conciseness of a stand-alone integrated report is certainly important and useful for users who want to obtain a comprehensive overview of the organisation. In the meantime, the connectivity of information helps collect more detailed and constructed information from distinct documents or the organisation’s website, in order to complete the knowledge of specific users on topics they are particularly interested in. However, this kind of integrated report risks increasing the complexity of an organisation’s communication,

because it does not replace any other mandatory or voluntary report. Furthermore, the quantity and variety of information requested for issuing an integrated report will probably originate a significant increase of costs for the organisation.

To integrate information is a good idea in essence, however it seems difficult in practice. This is understandable only considering from how the IR differ from other frameworks, for example it must be concise and integrated but considering: all the form of capitals, the past and the future, the long term and not only the short term, etc. In fact, 1.20 on (p9) states: “Although <IR> builds on developments in financial and other reporting, an integrated report differs from other reports and communications in a number of ways. In particular, it has a combined emphasis on: conciseness, strategic focus and future orientation, the connectivity of information, the capitals, the business model, the ability to create value in the short, medium and long term, and providers of financial capital as the primary audience.”

Also, since IR doesn't require specific indicators it could be difficult to compare the IR report with other reports coming from different institutions. It's a good choice though not to develop duplicate content developed by others.

N. 3

International references we may suggest include the following:

Global Reporting Initiative;

AccountAbility 1000;

LBG (London Benchmarking Group) Model.

There also exist well-known national references, which are often adopted in combination with the international standards. In relation to the Italian context, where we operate, we may suggest the following reporting standards:

GBS (Gruppo di studio per il Bilancio Sociale): http://www.gruppobilanciosociale.org/

ABI (Associazione Bancaria Italiana), specifically for banks;

Social Statement (CSR-SC Project);

Q-Res.

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N. 5

Yes, we agree with this approach, which appears to be innovative. However, we think that applying such a capital-based model could be difficult in many organisations, particularly SMEs, which are accustomed to classify their resources into only tangible and intangible assets, without introducing further categories. Even if the capital categorisation is not a strict requirement of the Framework, it has a significant role and we consider it as the real innovation and distinguishing element of the <IR>, so the lack of one or more categories of capital would make the integrated report rather useless. Moreover, many organisations tend to overlook the management of intangible resources and the interdependencies among them; hence, they would probably determine a lot of KPIs based on a financial perspective, but they would publish prevailingly narrative explanations on intellectual, human, social and relationship, and natural capitals and their transformations.

Hence, the risk of unbalancing between quantitative information on financial (and manufactured) capital and qualitative information on all the other ones is high.

Also, the model appears to be similar, or an extension of the Capitals (financial, manufactured, human, social/relationship, natural) proposed by "The SIGMA Project. Putting sustainable development into practice. A Guide for organizations (May 2003)", promoted in UK by DTI and DEFRA; founding partners BSI, Forum for the Future, AccountAbility; steering committee Association of Chartered Certified Accountants, Confederation British Industry, Trade Unions Conference, WWF, Business in the Community.

We think that the outlines of the six different capitals (Financial capital; Manufactured capital; Intellectual capital; Human capital; Social and relationship capital; Natural capital) is very good, however not sufficient relevance has been given to social and particularly to natural capitals. More emphasis should be given to them which will reflect on the concept of value creation too. I would add that we also have to take account that not all human being rights and expectations are connected to the concept of capital, so we have also to inform about these "stakes" in a real complete integrated report (see previous observation)

N.6

Your Executive Director told at a presentation in Milano on June 11 that the framework does not suggest metrics to measure Capitals, so different in nature, and that the use of

Capitals should be described in the context of the narrative report. A clearer statement in this sense is of paramount importance.

N.7

“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).”

Yes we agree, a business model needs to find out a specific system of inputs, business activities, outputs and outcomes in order to explain how to create value. However, here the IIRC needs to define the concept of value creation (with reference the six capitals) as it is very important. See previous point 1 and 5.

N.8

Yes, even if paragraph 2.36 should explain better what a "larger point of view" means, otherwhise it's too generic and it's difficult to compare the IR with other standards

“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)”. We agree with this statement but we would suggest more in-depth details about the meaning of outcomes and particularly about social and environmental outcomes.

We generally agree with this definition of “outcome”. However, we usually adopt this word when we want to emphasise a long-term perspective for internal and external consequences. In the Framework, this time-based meaning is not considered.

N.9

An integrated report should answer the question: What is the organization’s business model and to what extent is it resilient? We rather think that it is more relevant to consider the value creation of a business model (based on the 6 capitals). We do not understand why it is important to report on the resilient.

A business model resilience (4E) is not defined in the Framework. The resilience of a business model means its ability to quickly return to a previous good condition: hence, the Framework should suggest that the integrated report describes the events that have produced a deterioration, and the mechanisms introduced by the organisation to assure its own resistance during a crisis.

N. 10

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N.11

Report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8). We strongly disagree with this approach to materiality. This is one of the main weakness of the framework. The users of the IR will not be the only providers of financial capital but there will be all the other stakeholders too. It seemed that initial intention of the IIRC was not only to provide information to financial capital providers. We think that the framework will not be appealing if the premise is to make happy only the provider of financial capital. This is a main “minus” for the framework. This approach of IR opens to the possibility of managerial capture. We appreciate that the IR refers to intellectual capital aspects, however this is not sufficient.

N.12

As concerns conciseness (3D), this appears as a too generic and abstract requirement, and sometimes also contradictory. The variety and quantity of information that should be included in the report makes very difficult to respect the principle of conciseness. The risk of redundancy and duplication of information is high, particularly in case of organisations with multiple business models: due to the basic unity of governance and management also in such organisations, there probably exist common elements, which are shared by the different business models. In this case it could by difficult not to duplicate information.

As concerns the materiality determination process (5B), we appreciate the efforts to make clear to the organisation’s stakeholders the way by which matters have been prioritised through an assessment of magnitude and likelihood of occurrence. However, this process remains partially subjective, particularly when it is based on qualitative factors.

N.13

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

Through reliability, traceability and verifiability of the IR's data. We agree with this approach.
External, independent assurance seems to be the best mechanism for demonstrating the reliability of an integrated report, as recommended by the Framework. In our view, the assurance provider could also involve representatives of the organisation's stakeholders in the assurance procedure, in order to gather their opinions on the increase, decrease and transformation of capitals as described (and measured) by the organisation: the existence of evidence of such variations from a stakeholder's point of view can prove the reliability of the report.

N.14

The independent assurance final report should be attached to the integrated report, or at least made available on the website of the organisation that has issued the integrated report.

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N.16

The content elements are only sketched within the IR framework. We understand that the logic is that these not serve as a standard structure, but it is difficult to develop a standard without having the standard elements to consider. We would suggest to add a checklist and then organisations can be free to choose the elements the believe are relevant for them.
Also, among the others, the "Content Elements" chapter consists of a section on "Governance" (4B). The Framework suggests that an integrated report provides insight about remuneration policies: however, large companies all over the world are expected to divulge such information in their corporate governance report, financial report or sustainability report. Hence, the actual innovation of the Framework should probably be the request of explanation about the linkage among remunerations and incentives and their linkage with capitals in the short, medium and long term. Based on our experience in corporate communication, we think that very few organisation would divulge such details in the absence of mandatory provisions: as a matter of fact, even listed companies tend only

to mention their remuneration and incentive criteria, which are often generically summarised as performance-based.

N.17

Yes, it's very important to include a statement acknowledging the responsibility for the integrated report of the governance in order to show a clear responsibility toward stakeholders and IR addressees. Therefore, there should be a requirement for those charged with governance to include a statement acknowledging their responsibility to develop (or not) the integrated report as it is still a voluntary activity for organisations to develop that. Indeed, all the well-structured reports issued by an organisation should contain a statement that identifies the individuals or bodies responsible for the integrity of both the contents and the procedure. Nowadays this approach is typical of all the frameworks and guidelines on external disclosure, regardless of the topics addressed.

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N.19

Assurance should cover the entire integrated report, not just specific aspects, but as a whole. This approach is already used by assurance providers who certify sustainability reports. Anyway, if the complexity of an integrated report requires a variety of knowledge and skills for the assurance process, this could be managed by a mixed team comprising financial auditors and experts in social, intellectual capital and environmental reporting. In fact, the assurance is probably the highest check that can be undertaken to demonstrate the actions taken.

N.20

However it is very important not forgetting the involvement of stakeholders in developing the report too. A report developed without the involvement of stakeholder is just one way in the sense that represent only the information that the organisation wants to disclose.

Also, a brief description of internal control systems adopted by the organisation to guarantee information reliability should be included in an integrated report. Alternatively, a link to a wider description contained in other reports or in the organisation's website should be provided.

As concerns the criteria for an effective assurance engagement, the ones already defined by the international setters can be a good reference (for example, ISA for the audit of financial information, and ISAE 3000 and AA1000 Assurance Standard for the audit of social, environmental and sustainability reporting). We suggest also the guidelines of GBS about social accounting's auditing

N.21

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N.22

See our previous comment at n.1 b) about the need of the value creation description.

Also, the content of the Framework overall is appropriate, however it is just a bit too generic in defining the indicators that should be adopted. Finally, the model proposed in the Framework is really innovative. However, there is a risk that organisations meet high difficulties in preparing an integrated report by means of a principle-based approach. A more detailed format could be more appropriate and effective.

N.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? Explain value creation in relation to the 6 capitals, detailing in depth the social and natural capitals, ensure information gathering (performances), indicate the vision of the future, ensure feedback from stakeholders. Finally, a list of at least the basic KPIs can be very useful both to help organisations write their own integrated report and to provide a minimum extent of space and time comparability among the reports.

N.24

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