

## 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.

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## 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 agree with the principles-based approach to the Framework. We agree that the principles used in the Framework should, where possible, be consistent with existing reporting frameworks to allow for ease of integration and facilitate broad uptake of the Framework, to enable linkage to other reports and communications made by an organisation (as envisaged by the Framework), to ensure that the Framework enables integration of reports published under other established reporting frameworks, and to improve understanding of preparers and users. By way of illustration, it would impair uptake of the Framework as the framework for global integrated corporate reporting if there was an inconsistency between the Framework and the IASB's Conceptual Framework.

### ***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?*

We agree with the IIRC and do not support an integrated report as an additional form of standalone reporting.

We agree that the <IR> process should be applied continuously to all relevant reports and communications, and with the way in which the interaction with other reports and communications has been characterized in the Framework. It is important that the Framework is not seen as an additional burden to report preparers and that it is seen to add value to corporate reporting. In our view, the Framework should be used as a mechanism to reduce duplication in reporting and we encourage the IIRC to work closely with regulators and other international standard setters in consultation with the primary users of corporate reporting to reduce the clutter in the reporting landscape. In this respect, we wonder if there is too much focus on an annual integrated report. We support application of the principles of integrated reporting to all communications made by an organisation which should describe value creation in the short, medium and long-term.

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 an accessible database of authoritative sources of indicators would assist preparers and assurance providers. The IIRC should establish criteria for selecting an appropriate framework. Grant Thornton believes that the criteria for selection should include that the body responsible for the framework is committed to due process such as

engaging in consultation. We acknowledge that <IR> is broader in application than just sustainability information, however we are aware of the work of the Climate Disclosure Standard Board to develop a comprehensive database of reporting standards and requirements and the IIRC can provide support to this project through its member organisations.

### ***Other***

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

The <IR> Framework states in paragraph 1.6 that an integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments. In our view the group most likely to benefit from high quality integrated reports will be long term providers of financial capital. It will be incumbent on the IIRC to ensure that long term shareholders who are supporters of integrated reporting encourage or even require use of the Framework, and that they describe what they need from integrated reports. It should not be overlooked however that there are other users who are not providers of long term financial capital who should be considered by the preparer by reference to their particular circumstances, which could include for example the local community, elements of the organisation's supply chain or local government.

We acknowledge the concept of "integrated thinking" in contrast to "silo thinking" (1.16 and 1.17). We consider that the principle of connectivity is fundamental to <IR> because it facilitates integrated decision making and actions and therefore merits further explanation and guidance.

Finally, we note that paragraph 1.10 indicates that the Framework is principally intended for application by organisations of any size in the private for-profit sector. In common with the IIRC we would support use of the Framework by public sector and not-for-profit organisations. It would be useful if IIRC could articulate the benefits that are expected to accrue to SMEs adopting the Framework, which might include better access to capital and alignment of public disclosure and brand values with organisations in other parts of their supply chain.

## **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 concept of the capitals and the categorizations suggested by the IIRC. We consider that the capitals are interdependent and without stifling innovation further guidance is required to show how trade-offs between capitals are reported by the organisation. We support the view of the IIRC that the six categories of capital should be used as a starting point for ensuring that an organisation considers all of the forms of capital that are used and affected, but which does not require that all of the categories identified are adopted by all organisations. In our view, this provides suitable flexibility to refer only to material and relevant capitals whilst also enabling broad comparability between different organisations.

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

The stewardship of the capitals by those charged with governance is key to <IR>. With reference to paragraph 2.25, how the organisation manages the connectivity and trade-offs between the capitals in relation to the strategic objectives of the organisation must be disclosed in the Integrated Report.

In common with other comments from Grant Thornton, IIRC should not draw up its own definition for "those charged with governance" where an appropriate definition has been researched and adopted elsewhere. We suggest that the definition described in the IAASB's ISA 260 "Communication with those charged with governance" is appropriate for endorsement in the IIRC framework.

**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 because it will be consistent with the understanding of most stakeholders. Since business models are in a constant state of evolution and larger companies may have a range of business models the Framework will need to address through flexibility different circumstances for different companies.

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?*

In supporting clarity, the IIRC may elect to reference the International Public Sector Accounting Standards Board (IPSASB) definitions of inputs, outputs and outcomes. We acknowledge that the IIRC will wish to avoid where possible tying the Framework in to something else that might change. However, this could be avoided if the Framework said "...as defined in..." – which would mean that the Framework will automatically update if and when the reference updates, thereby maintaining over time the Framework's consistency with other reporting frameworks.

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 recommend that the IIRC give due weight to the views of the long term providers of financial capital regarding their expectation in relation to disclosure.

**Other**

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

The ideas being discussed in paragraph 2.44 which deal with the impact of externalities on capitals we believe is not something that many users or preparers will be familiar with. Therefore we suggest that this section would benefit from broader discussion and reference to some practical examples.

## 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 agree that materiality is determined by company management in their assessments and what is important to the primary report users. With reference to our answer to Question 1, we believe that it would be desirable to have consistency between the principles for assessment of materiality used for international financial reporting purposes and for <IR> purposes, in order to achieve a consistency of application between different company reports and communications. That is to say, we agree that the preparer considers what is material to the primary user of the report for the purpose of their decision making. The concepts of reliability and completeness of information are aspects of materiality which should be incorporated within the Framework's guidance on materiality.

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

The sections of the Framework related to materiality should include a reference to the materiality background paper (similarly for other sections such as Business Models and Capitals). Paragraph 3 from the paper should be incorporated in the Framework to give preparers guidance on how the definition of materiality for <IR> relates to materiality for example in financial 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?*

Reliability can be enhanced in a number of ways, for example through the provision of assurance. Internal assurance functions can help to test the robustness of the system of internal control and the credibility of external reporting can be enhanced through independent, external assurance.

Management, the systems they employ, and the nature of the subject matter being reported control the reliability of the information being disclosed. Different information measured in different manners will exhibit different levels of reliability, which may also be referred to as measurement uncertainty. Understanding measurement uncertainty will be improved with appropriate disclosure from management about estimates and assumptions.

The credibility of that information, however measured and disclosed, may be improved by internal and external auditors testing management's data, processes, models, assumptions etc. The Framework should distinguish between the reliability of the information gathered/measured/reported by management, and the additional credibility on that information for users which accrues from competent independent assurance on that information.

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

We think that the IIRC could apply the IASB's Conceptual Framework definition of 'reliability' in terms of "faithful representation", which shares the features of completeness, freedom from error and neutrality all covered in Section 3E. We think it would be more helpful for the Framework, like the IASB's conceptual framework, to define what reliability means for <IR> purposes.

#### **Other**

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

Chapter 3 contains few relative terms such as fundamental, extreme, key, critical and important. IFRS also contains a number of relative terms and experience is that this has led to significant debate about what these terms mean in practice. As the IIRC are at the start of this project it would be helpful to try where possible to omit the use of relative terms unless they are used consistently and are needed to enhance understanding.

#### **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).

We support the content elements as described in Chapter 4.

#### **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?

Yes, the Framework should incorporate an explicit statement that those charged with governance are responsible for the integrated report. We consider that such a statement in the integrated report or appended to it would improve the credibility of the report.

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

No additional comments.

## **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?*

If independent assurance is obtained we believe that competent independent assurance should be provided on the content of the report as a whole otherwise it would be inconsistent with the overriding principles of <IR>. However, the development of integrated reporting will be an evolutionary process and so assurance on certain elements of the report, or on the reporting process adopted by those charged with governance, might be appropriate while practice evolves.

The form of assurance on financial information may be different in nature to assurance on other information due to the difference between verifiable, objective information compared to the subjectivity of some reporting assumptions and other information. However, International Standard on Assurance Engagements (ISAE) 3000 is effective for engagements other than audits or reviews of historical financial information and we welcome further development of assurance standards to ensure that they can support integrated reporting requirements. We also believe that assurance reports on <IR> should be subject to International Standard on Quality Control (ISQC) 1.

*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 believe that the Framework provides a suitable basis for an assurance engagement on an integrated report because as a Framework it is able to integrate with other reporting principles, criteria and frameworks such as IFRS.

We consider that an integrated assurance approach can enable use of experts on specialist information in areas such as natural and intellectual capital.

## **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 consider that further guidance for applying the Framework on the impact of external factors on an organisation (how far you reach in assessing opportunities, risks and outcomes) would help organisations to address this issue, which is critical to <IR>.

## **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 that the Framework overall is appropriate for use by preparers and for providing users with information that is useful for decision making purposes. The IIRC needs to set the parameters for how the fundamental concepts such as the capitals should apply to an organisation. At present it just requires an organisation to report that

it uses, changes and effects capitals but an organisation should also have to make a statement about the actions it has taken to ensure its ability to create value within certain parameters.

## 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?*

The three topics on which we consider that further explanatory material should be developed are:

a) Connectivity of information – we consider that further guidance for applying the Framework would be helpful on both how an organisation connects their strategy, governance, performance and prospects with the concept of capitals, and how <IR> links with existing reporting mechanisms with an aim to reduce the reporting burden on preparers and make reports connected and more accessible to the user.

b) Reporting Boundary – we consider that further guidance for applying the Framework on the impact of external factors on an organisation (how far you reach in assessing opportunities, risks and outcomes) would help organisations to address this issue, which is critical to <IR>.

c) Capitals – long term providers of financial capital would welcome further information on how an organisation manages the trade-offs between the different capitals, to aid a better understanding of their interdependencies. The Framework could usefully expand paragraph 2.25 in suggesting how this information be disclosed.

## Other

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

We encourage the IIRC to develop proactive strategies for removing "clutter", not least because if the Framework is not implemented as the IIRC intends, leading to significantly increased volumes of information, then broad endorsement of the Framework may be at risk. Without clarity on how to de-clutter reports, it may be hard to achieve endorsement from long term providers of financial capital who are already overwhelmed by the amount of information provided in annual reports. We suggest that the Framework establish the principle that the information included in integrated reports need only be that which is needed to communicate its analysis and conclusions in a clear and understandable manner.

As a foreword to the Framework, the IIRC may wish to reiterate the purpose of <IR> and how existing reporting fits within the reporting landscape.

Following publication of the Framework future activities could include:

- post implementation review to inform future maintenance of the Framework
- on-going advocacy for adoption of <IR>