

## 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.

The WBCSD in cooperation with our members and partners in the United States of America held a Integrated Reporting workshop on 12 June 2013 in Chicago for the purposes of soliciting feedback from businesses and other interested organisations on the Draft Consultative Framework issued by the IIRC on 16 April 2013

The workshop was attended by 12 participants representing the following companies and service providers:

KPMG  
Harley Davidson  
AEP  
PwC  
Dupont  
P&G  
CardnoENTRIX  
Exelon  
Caterpillar  
Meadwestvaco

United Airlines (United Continental Holdings, Inc.)

The represented companies collectively employ 811,000 employees, have a combined market capitalization of US \$ 382 billion and combined revenues of US \$ 290 billion.

Overall the attendees at the US workshop felt that the framework had positive elements however there were two main areas of concern. Firstly if the primary intended audience is not asking for <IR> what is the overall value for doing an additional report. Many companies felt that this would be a hard sell to management without proof that investors want the information. Secondly, the legal implications of an Integrated Report in the US are significant particularly the forward looking disclosures outlined in section 4G.

It is also important to note that all the attendees are from the sustainability reporting functions of their companies that the feedback is therefore limited as its not from a wide range of views (Investor relations, Legal, CFO etc).

## 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.*

The following additions are offered for consideration

- i) Credibility and Balance (instead of complete)
- ii) Accuracy – why is 5E not a guiding principle?

In addition, the participants had one suggestion and one question which they wanted to pose to the IIRC:

- a) Definition of valuation – make it more clear up front as to what value creation is
- b) Is there a need for materiality given that IR is an iterative process?

### ***Interaction with other reports and communications***

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

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

The participants for several industries were concerned that material non financial data may not be available until after the AR is produced especially data controlled externally.

The concept of continuous reporting was seen as a significant investment in many participating companies and given the absence of investors asking for this information it would be difficult to a) get approval for the investment needed to gather continuous data

and b) Not practical to have IR in an analyst call.

In general the participants had a gap in expectations (as we noted in most workshops) as they expected IR to be better reporting not more reporting. This statement from the IIRC CEO and its use in all marketing materials from the IIRC has left companies feeling misled.

There is a risk that and IR could become a cover letter with links to other parts of the communication / disclosure and reporting of the entity which is not the intention of an integrated report. The framework should not encourage too much cross referencing.

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?*

This caused confusion as to what was being asked. References could be offered but there is caution over making this too prescriptive.

### **Other**

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

The participants questioned if a sustainability report today is believed and will an integrated report be more trusted? They concluded that this is too unknown to answer with clarity but the flexibility of the framework allows for too much freedom.

Value creating stories attracted criticism as the term story does not fit into the lexicon of corporate reporting.

## **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?*

The participants appreciated the six inclusion of 6 capitals but there was universal dislike for the diagram (octopus) as 1) it possibly sends the wrong message on value / waste; and 2) some participants found it hard to understand

The classification of a company as a particular type may cause confusion on the use of intellectual and manufactured capitals given the different levels of innovation across companies.

Section 2.25 is complicated to follow and we struggle with how to operationalise this

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

To increase adoption of the concepts of the framework it is suggested to include reporting of the capitals in existing sustainability reports

### **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?*

The framework should recognise that businesses may have more than one business model as many businesses have diversified portfolios and this is not reflected at all in the draft framework.

Business model and Chosen System of Inputs... should be plural

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?*

Depletion of capital stocks can be via consumption and degradation. The framework should ensure disclosure of the type of depletion as it is necessary to get the full picture / understanding of the impact a company is having.

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)?*

If conciseness is a goal US businesses are uncertain how the framework will be used when a company has complex and multiple business models and geographies. The framework needs to address this in the body of the text even if addressed in standalone documents.

### **Other**

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

## **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?*

The definition of materiality is both limited and unrealistic. The providers of financial capital are interested in a return on financial capital via discounted future cash flows. Materiality could be redefined in language that is more understandable to the provider of financial capital.

The IIRC should consider the use of the SEC definition and the framework should be careful in creating litigation opportunities and in appropriate disclosures impacting the financial capital of the company.

In the US compliance is the primary objective of corporate reporting. US companies are concerned that the Materiality – how will the IR definition of materiality trigger additional disclosure?

This definition of Materiality is different from financial reporting and GRI etc. The singular stakeholder focus of IR could be at odds with the short term focus of most investors.

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

Materiality - Two different issues between what is material and what is material for reporting. The framework makes this confusing.

### ***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?*

US companies do not want to see a SOX 404 like obligation for Integrated Reporting. An integrated report however should be clearly owned by senior management and this responsibility acknowledged in the integrated report. Management should also describe the internal control processes they have in place to ensure the integrity of the content of the report. The practical implementation of this in the UK is considered very challenging.

Assurance providers are not likely to provide assurance over future events. The approach will be on review of internal control environment and the system around the data capture which would complement the text management disclosure above.

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

Participants did not understand why appropriate stakeholder engagement add to reliability and completeness when the text is focused on internal control and assurance?

It is recommended that the words "Balanced" and "Accurate" should be included in the title of this guiding principle as well.

### ***Other***

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

The participants felt that there was too much flexibility in the guiding principles. Although the level of flexibility does allow a business to show its unique position it was agreed that the framework affords businesses with too much optionalism on how to draft an integrated reporting and this flexibility will limit comparability between companies even in same industry.

The participants also felt that the framework may limit value adding activities such as setting longer aspirational goals, ability to sit with smaller stakeholders.

## 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).

Section 4G - Future Outlook is the biggest hurdle to implementation of the framework in the USA. This is similar in principle to the Risk Factors disclosures under SEC reporting obligations which are usually drafted by legal counsel however the requirements cited in Section 4G are wider and may create a compliance issue for many SEC Registered Companies.

## 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?

The value of this is understood but the practical implementation of this is considered very challenging

See answer to question 13 above.

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

Legal liability associated with disclosure is not addressed at all in the framework. The US market and corporate reporting is compliance driven. Although there are a lot of good concepts in the framework many participants stated that "We [the company] will never do an integrated report as per the framework until the lawyers sign off on it". It is expected that getting legal sign off could be a significant challenge for US companies given the need for forward looking information to be disclosed in an Integrated Report.

### ***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 be provided on the content of the report not on compliance with the framework. However it is acknowledged that future looking targets and forward looking information are unlikely to be assured.

The type of assurance also need to be addressed. It is also considered that users of reports do not understand the differences between Reasonable, Limited, negative etc. assurance.

The Accounting Profession should develop a specific assurance standard over non financial data and not the IIRC.

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.*

### **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).*

Frequency of reports – in the US market financial reporting is earlier than sustainability reporting sometimes as early as the second week in January. This is because finance is more of a priority for investors and for management and is at the heart of the SEC corporate reporting obligations.

Participants had confusion over the time-lines (Short / Medium / Long). The explanation is too open ended in the framework and it is recommended that definitions by sector be offered.

### **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?*

US businesses recommended a phased approach for implementation. They felt that a focus on the guidelines and some of the content elements could be insightful for any business but that in exploring <IR> they felt that getting deeply involved in the preparation section of the framework too early would be negative.

It is recommended that US businesses practice the use of <IR> by implementing some of the elements of the IR framework into the existing sustainability reports to gain traction and understanding.

In terms of the question the participants did not know what the long term vision of the IIRC is and what organisation will own and manage the framework in the future. The participants would like less flexibility in the framework to afford consistency and comparability.

## 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?*

US participants offered two suggestions

- 1) The business case for doing this with proof that investors are asking for it.
- 2) A template or dummy document.

## Other

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

Nothing further to note