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Mervyn King
Chairman
International Integrated Reporting Council
Submitted via www.theiirc.org/consultationdraft2013

Re: Consultation Draft of the International Integrated Reporting Framework

Dear Professor King,

The International Federation of Accountants (IFAC) values the opportunity to comment on the International Integrated Reporting Council (IIRC)'s *Consultation Draft of the International Integrated Reporting Framework* (the Framework) and seeks to provide the perspective of the global accountancy profession.

We highlight key matters before responding to the various questions in the addendum. Both our Professional Accountants in Business (PAIB) and our Small and Medium Practices (SMP) Committees played a central role in the development of our response, as a large part of their constituencies is involved in the planning, implementation, execution, evaluation, or improvement of integrated business reporting.[1]

General Comments on the Framework

IFAC believes that high-quality reporting lies at the heart of strong and sustainable organizations, financial markets, and economies, as the disclosure of useful information is crucial for the various internal and external stakeholders who need to make informed decisions regarding an organization's capacity to create and preserve value. As organizations depend on their stakeholders for their sustainable success, it is in their interest to provide high-quality reports. In addition, high-quality reports are integral to the successful management of the business, as they promote better internal decision making and are one of the major drivers of sustainable organizational success.

Effective reporting should ensure that all internal and external stakeholders receive appropriate high-quality organizational reports in a timely fashion. In that light, IFAC welcomes the publication of the draft Framework, which can be truly called a landmark step forward in the evolution of organizational reporting, as it provides direction for how integrated reporting might look. We offer the following suggestions for further improvement of the Framework.

Stimulate Professional Judgment through Principles-Based Application of the Framework

IFAC strongly supports the principles-based approach to integrated reporting that the IIRC takes and notes that taking this approach is more likely to result in a Framework that will be capable of application in

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[1] Provided internally as a professional accountant in business or externally as a professional service delivered by an accountancy firm.

a manner proportionate with the size of an entity. However, various sections the draft Framework use language that is difficult to reconcile with such a principles-based approach. For example, "to be in accordance with the Framework, an integrated report should *comply* with the principles-based *requirements*" (see the Overview section of Summary of Principles-Based Requirements). By referencing compliance with requirements, the Framework implies that there is only one prescribed way for integrated reporting. Throughout the document, these sentences could be rephrased from "*complying with the requirements*" to "*properly applying the principles*" to better capture the spirit of principles-based *application* of the Framework, thus stimulating professional judgment.

Organizations Should Determine the Intended Audience

IFAC believes the reason an integrated report should be prepared "primarily for providers of financial capital in order to support their financial capital allocation assessments" is not sufficiently explained (paragraph 1.6 and other sections).[2] Paragraph 1.7 indicates that other stakeholders will also benefit from integrated reporting. Furthermore, it seems that a focus on providers of financial capital might be inconsistent with the wording in other parts of the Framework—such as in section 3.C, Stakeholder Responsiveness—where the broader concept of "key stakeholders" is used. Therefore, IFAC recommends the IIRC adopt a position whereby it suggests that each individual organization should determine its intended users of an integrated report based on its own particular circumstances, especially as the various stakeholders' interests are "likely to align over time" (see wording in paragraph 1.8). This would allow organizations to identify for themselves the primary stakeholder groups they would like to communicate/engage with through integrated reporting.

Implementation

IFAC commends the IIRC on conducting a pilot program for integrated reporting. Clearly, the IIRC will learn a great deal from these pilots to assist in advancing the Framework and guiding future implementation. However, there are two areas where IFAC believes improvements could be made to the Framework that will assist in its implementation.

- Clearly defining and explaining some of the key concepts outlined in the Framework (examples provided in responses to some of the specific questions below)
- Streamlining, and better coordinating, figures used to help describe the Framework (see responses to question 9 below)

Ideally, many of the lessons learned from the pilot program, including the suitability of the Framework for the various types and sizes of organizations, could be taken into account when the IIRC finalizes the Framework. In addition, IFAC encourages the IIRC to consider developing guidance on how the Framework might be applied to smaller entities (e.g., via case studies, illustrative examples, etc.).

[2] Providers of financial capital are not a homogeneous group and the various sections may have very different information needs.

Suitable Criteria and Assurance

IFAC believes it is imperative that the Framework promotes reporting that provides suitable criteria against which preparers can consistently determine the appropriate content of an integrated report *and* assurance can be provided. The main characteristics of reported information that are generally considered suitable encompass relevance, completeness, reliability, neutrality, and level of understanding.

Assurance enhances the degree of confidence of intended users in the information being provided. Assurance on the integrated report should be provided in accordance with high-quality, internationally-accepted assurance standards. To achieve this end, IFAC believes it is important for the IIRC to liaise with the International Auditing and Assurance Standards Board in the development of the Framework.

Comments on Specific Questions

For the convenience of the development team, we have included our comments on the specific questions outlined in the IIRC Consultation Questions in the addendum to this response. We hope you find our recommendations useful and constructive as you finalize the Framework.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission. We also welcome further discussions on how IFAC can continue supporting the work of the IIRC.

Yours sincerely,

Fayezul Choudhury
Chief Executive Officer

About IFAC

Through its membership, currently 173 professional accountancy organizations in 129 countries and jurisdictions, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education. As the global organization for the accountancy profession, IFAC is committed to contributing to the highest-quality professional services by the accountancy profession around the world.

Comments on the Specific Questions Outlined in the IIRC Consultation Questions

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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.

As the principles-based requirements and fundamental concepts in chapter two are listed throughout the Framework, we will discuss them in the chapter in which they appear.

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?

Generally, we agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications. However, as the Framework does not define "integrated framework process," it is unclear what exactly needs to be "applied continuously to all relevant reports and communications," in addition to the preparation of an integrated report. This could be further clarified, for example, by including

a definition or graphical representation of an integrated reporting process.

The use of an alternative term might also be considered, for example, "integrated thinking should be applied to all relevant reports" or "the fundamental concepts underlying this Framework including integrated thinking should be applied to all relevant reports."

In addition, we believe that organizations need not necessarily develop a separate/standalone report to achieve the integrated reporting objectives. They could also build on already existing reports, such as the annual report, or as part of the management commentary. Organizations should determine for themselves, in consultation with their stakeholders, how best to present integrated reporting.

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?

Investor Demand for Environmental, Social, and Governance Disclosures: Implications for Professional Accountants in Business (IFAC, 2012) considers trends in investor demand for and use of environmental, social, and governance (ESG) information and how organizations can respond to these demands, and ultimately improve their reporting of ESG performance. Other authoritative resources include the Global Reporting Initiative and the Greenhouse Gas Protocol. In addition, there are many national requirements and industry/sector initiatives for reporting certain indicators. While these requirements should not be listed specifically, the Framework could generically refer to them.

Other

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

Expand the Definitions

The IIRC should consider expanding the definitions in the Framework, for example by including:

- Reporting process: the people and processes involved in the preparation, review, approval, audit (when relevant), analysis, and distribution of reports. All sections in the process need to be robust and closely connected to effectively yield high-quality reports.
- Effective reporting processes: processes that are capable of delivering high-quality business reports in an efficient and timely manner.[3]

These definitions apply equally to an *integrated* reporting process and effective *integrated* reporting processes.

[3] Both definitions from *Principles for Effective Business Reporting Processes* (IFAC, 2013)

Redress Imbalance between Financial Capital and Other Capitals

We do not understand why the allocation of financial capital is singled out in the Objectives of Integrated Reporting section (second bullet, paragraph 1.5), as allocation of all capitals can be material to key stakeholders (depending on the type and size of organization). The confusion is increased by the third bullet point about enhancing accountability and stewardship with respect to broad-base capitals.

Amend the Objective of This Framework

We believe assisting organizations to establish or determine the *content* of their integrated report, rather than develop their integrated reporting *process*, is the primary objective of this Framework. Therefore, the text in paragraph 1.9 should be changed accordingly.

In addition, the Framework could refer to existing guidance, such as IFAC's International Good Practice Guidance, *Principles for Effective Business Reporting Processes*, which aims to help organizations develop and enhance their integrated reporting processes.

Expand from Corporate Reporting to Organizational Reporting

We believe that integrated reporting is equally important to not-for-profit entities, public sector organizations, and all other non-corporates as it is to corporations. Therefore, we recommend expanding the scope from "corporate reporting" to the more neutral "organizational reporting." This is especially useful because the Framework already talks about organizations throughout the text and because the text in paragraph 1.10 does not sufficiently explain or make the case *why* the Framework would be "intended primarily for application by private sector, for-profit companies."

Include Cost/Benefit Analysis

In paragraph 1.11 the unavailability of reliable data is listed as one of the potential reasons not to prepare information in accordance with the Framework. The practical issue, however, is whether certain information can become available at a reasonable cost/benefit level. Having an exception to prepare information on the basis of the unavailability of reliable data alone will not reduce unnecessarily expensive data gathering. Therefore, the Framework should also enable organizations to include cost/benefit analysis in their considerations on application of the Framework.[4]

Include Stakeholder Engagement in Determination of Materiality

Paragraph 1.13 recommends "senior management and those charged with governance therefore need to collectively exercise judgment to determine which matters are material." We recommend explicitly including internal and external stakeholder communication and consultation, or otherwise assessing their expectations, as part of determining materiality.

[4] Of course, the Framework could demand that organizations substantiate their non-conformance to certain principles in accordance with the "apply or explain" principle.

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 generally agree with the capitals approach at a conceptual level, as integrated reporting should be about all material stocks and flows in capitals, as well as their interactions, providing stakeholders what they need to make decisions about the organization. From a practical perspective one could argue whether the capitals approach is the most understandable approach, as the term capitals has different meanings to different audiences. Alternatives could be resources or inputs.

As financial capital is only one of the capitals—albeit an important one—it remains unclear why the integrated report should be primarily directed to the providers of financial capital and only in the second instance to the providers, or for that matter the receivers, of the other capitals (see our general comment in our cover note). Our answer to question 6 includes some additional specific issues related to capitals.

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

Provide Guidance on How to Value the Capitals

Paragraph 2.9 states, "Some of the capitals belong to the organization, while others belong to the stakeholders or to society more broadly. The organization and society therefore share both the cost of the capitals used as inputs and the value created by the organization." This implies the organization should be responsible for valuing and reporting on the change in capital for society, which then creates reporting issues about how to value the societal impacts of these capital changes. This is especially challenging because there are large variations in how to value some of these capitals within society. In addition to paragraph 2.24, and in relation to paragraph 2.36, the Framework could provide more detail or references on how organizations should practically implement these concepts. Furthermore, we believe that organizations should not be bound to the six capitals but should be encouraged to apply judgment.

Define Specific Terms and Use Them Consistently

The terms consumed and destroyed in paragraph 2.13 are both used to describe the presumed decrease in a capital but these terms are not defined. The interchangeable use of the terms capitals, resources, inputs and outputs, and relationships might be another source of potential confusion. The interchangeable use of the terms long term value, long term success, and long term viability could also cause confusion. Finally, in numerous places the Framework talks about risks and opportunities as if they are complementary. However, according to the International Organization for Standardization (ISO)'s leading *ISO 31000:2009 Risk Management* standard, risk is the effect of uncertainty on objectives, which can be positive (opportunity) or negative (threat). Therefore, it would be conceptually better to speak about opportunities and ~~risks~~ threats. We recommend consistent use and formal definition of these and other specific terms.

Discuss Possible Transition Between Capital Categories

With respect to paragraph 2.17, we recommend including a discussion of how an item can transition from one category of capital to another. For example, gold and silver could be considered to be financial capital or natural capital. Gold and silver historically have been and continue to be treated as funds when they are in the state of processed bullion but they are also clearly minerals when they are in their raw state. Another example, and possible source of confusion, is the permeable boundary between social, human, and intellectual capitals.

Expand the Definition of Human Capital

The definition of human capital in paragraph 2.17 includes the ability of people "to understand, develop, and implement an organization's strategy." However, human capital first and foremost needs to be capable of setting the entity's vision, mission, outputs, and outcomes before it can address a strategy on how to achieve those objectives. This takes into account "the effect of uncertainty on achieving those objectives," which is the definition of risk in *ISO 31000:2009 Risk Management,* one of the most widely used standards globally.

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 agree with the essence of this definition but believe the wording could be further improved. For example, from the definition it is not clear how inputs, business activities, outputs, and outcomes interact to create value. A slightly revised definition might be, "A business model is defined as an organization's chosen system of transforming inputs (or: input capitals), through business activities, into outputs (or output capitals) and outcomes that aims to create value over the short, medium, and long term."

Business model (Section 2C) continued

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?

We agree with the essence of this definition but recommend the IIRC consider further alignment of its definitions with other standard setters. For example, the definitions of the International Public Sector Accounting Standards Board might be appropriate in this case:

- inputs are the resources of a reporting entity used to produce outputs that are used in achieving its objectives;
- outputs are the goods and services, including transfers to others, provided by a reporting entity that are used in achieving its objectives; and
- outcomes are the impacts of outputs that are used in achieving the reporting entity's objectives.

Other definitions that might be considered include those developed by the International Accounting Standards Board and the Global Reporting Initiative.

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)?

Rationalize the Figures Used to Demonstrate the Various Concepts

Ideally, individual concepts should be depicted individually and subsequently merged together in one overall figure in which the individual building blocks are still clearly visible. However, the figures used in the Framework might create confusion as they are not mutually consistent.

- Figure 1 in the Framework introduces the guiding principles and the content elements.
- Figure 3 also depicts the content elements but in a different format and with different descriptions. In addition, the guiding principles are no longer included.
- Figure 3 is a synthesis of Figure 2 (the capitals) and the business model. However, it is positioned in the framework (on page 11) much earlier than the actual explanation of the business model in the text (page 14).
- In addition, Figure 3 introduces two new columns on either side that represent the organization, whereas in the previous figure this space was part of the external environment. Also, paragraph 2.9 says "*Some* of the capitals belong to the organization, while *others* belong to stakeholders or to

society more broadly" (identified as society in Figure 3). However, Figure 3 seems to portray an exchange or transfer between the organization and society from *all* capitals.

- Figure 4 depicts the capitals again but in a different format than in Figures 2 and 3.
- Figure 7 seems to include the various stakeholders but for unclear reasons omits the providers of financial capital, which were identified earlier in the Framework as the primary audience. Additionally, Figure 7 does not seem to bring much additional clarity and could, therefore, be deleted.

Other

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

Editorial Suggestions

The word element in paragraph 2.4 is confusing because it is similar to content element but is used in a different way. One option could be to replace element with another term, such as constituent component. In addition, paragraphs 2.5–2.11 are actually a subset of paragraph 2.4. The use of bullet points instead of separate paragraphs would better clarify this (similar to the construction in paragraph 2.17).

The first bullet point in paragraph 2.37 says, "An organization can create and maximize value by serving [suggested change: "balancing"] the interests of, and working with, all its key stakeholders." However, there seems to be an imbalance in the subsequent sentence, which says that, "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." This implies that creating and maximizing value always manifests itself in positive financial returns but positive or negative returns for the providers of other forms of capital. Many public sector or not-for-profit entities, however, maximize value with a *negative* effect to providers of financial capital.

Paragraph 2.38 begins with the interests of providers of financial capital but ends with other stakeholders. These seem like two different thoughts combined in one paragraph. Perhaps this paragraph could better explain how providers of financial capital are also, or should also be, interested in the return on other capitals, as their returns on financial capital are directly dependent on them. Another paragraph could be used to emphasize the separate point that other stakeholders might also have an interest in the interrelationships between the various capitals.

Exchange Sections

We believe it would be more logical and understandable to first provide the more general section, "The Meaning of Value," before the more specific section, "Value for Providers of Financial Capital."

Balance Focus Between Long and Short Term

There should be a more balanced focus between long term and short term in this section of the paper, as there is in section 3.2.

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 with referencing assessments made by the primary intended report users when determining materiality. However, as noted in our general comments, we recommend that each individual organization determine its intended users of an integrated report.

Obtain Primary Intended Users' Views When Determining Materiality

If senior management and those charged with governance are to refer to the assessments of the intended user, they should also seek to obtain their views or by other means assess their expectations, include them in their determination, and seek feedback on whether the appropriate materiality thresholds have been set. However, the section on determining materiality does not address involvement of intended users. We, therefore, believe this section could usefully be expanded to include this notion.

Include Materiality Warning in Integrated Report

Despite the additional guidance in section 5B, it is not clear how the materiality in an integrated report relates to the materiality in underlying reports. It is certainly not the intention of the Framework that all information that is deemed material in, for example, the financial report should also be included in the integrated report.[5] As the materiality level of the financial report is different than in the underlying reports, perhaps the integrated report should contain an explicit warning that some matters discussed can only be fully understood when readers also assess the more detailed information in the underlying reports.

We note that the IIRC's *Materiality Background Paper for Integrated Reporting* (developed under the lead of the American Institute of Certified Public Accountants) contains additional guidance on how to handle the materiality concept in relation to integrated reporting. Possibly, some more of that background guidance could be elevated the final version of this Framework.

[5] Even though paragraph 3.30, for example, states that, "An integrated report should include *all material matters*, both positive and negative, in a balanced way and without material error," which is reconfirmed in other places as well, such as paragraph 3.36. Another good example is paragraph 3.40: "If material information is not included in an integrated report, the intended report users may incur costs in obtaining information through other sources or may make sub-optimal decisions as a result of not having that information."

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

Include Likelihood and Professional Judgment

The second bullet of paragraph 3.25 drops a very important modifier that is included in paragraph 5.3: *likelihood*. Taking into account the likelihood of an event is very important in determining its potential materiality and hence should be incorporated into both paragraphs.

In addition, the Framework should emphasize that assessing materiality requires professional judgment, as both quantitative as well as qualitative criteria should be taken into account. For example, management fraud is always a material matter even if the amounts involved are small.

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?

We believe that reliable reporting is also enhanced by implementing and ensuring effective reporting processes, including the related internal controls and adequate documentation of the evidence supporting the content of an integrated report. The integrated report could briefly describe how these reporting processes have been assured.

Ensuring open communication with respect to integrated reporting between the governing body, the audit committee, and the organization's internal and external auditors also contributes to more reliable reports. The integrated report could briefly describe how this communication has taken place.

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

Editorial Suggestions

In paragraph 3.39, consideration might be given to revising the wording to, "Costs to the organization (both time and expense) may arise from the need to establish or strengthen processes, ~~information~~ systems, and controls for capturing and aggregating information or making estimates. Until such processes, systems, and controls are implemented, it may be impracticable or impossible for certain information to be fully and reliably included (i.e., included to the optimum extent, level of specificity, and precision)."

Better Address Issues Around Loss of Competitive Advantage

Paragraph 3.44 in the section on competitive advantage states that, "It may often be the case that information about strategies is already known to the market, and therefore available to competitors, and that the true competitive advantage lies in how those strategies are executed (e.g., the efficiency and effectiveness of the processes and practices used) rather than in the strategies themselves."

This statement implicitly points out how important a description of the planned execution is for the intended user of the integrated report to make a good assessment of the organization's ability to create value over the short, medium, and long term. The Framework, therefore, rightly requires that such information should also be disclosed, for example, the discussion on the business model in section 2.C. But by doing so, the issues around loss of competitive advantage remain but transfer from strategy setting to execution. Therefore, additional consideration might be given to the arguments that address the issues around loss of competitive advantage.

Other

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

Increase Differentiation Between Guiding Principles and Content Elements

Although we generally agree with the guiding principle of having a strategic focus and future orientation (section 3.A), we believe the Framework should better explain how this differs from the content elements, especially the strategy and resource allocation and future outlook, as this might be confusing for those who actually implement the Framework.

Provide Improved Grounding for Future in Past and Present

We also firmly believe that a strategic focus and future orientation should be grounded in past performance and current circumstances (connectivity over time), the emphasis of which could be enhanced in this guiding principle. Lastly, and taking into account the notion of uncertainty in paragraph 3.6, providing a strategic focus and future orientation might generate future projections that are susceptible to liability challenges and that will be very difficult to independently assure (also see our comments on section 5.E on credibility).

Select a Different Term to Describe the Connectivity Elements

We struggle with the term components in paragraphs 3.7 and elsewhere, as it appears to mean something akin to the elements or building blocks of the Framework. However, in paragraph 4.12, for example, the term components is used to indicate parts of remuneration. The IIRC should consider whether there might be a more accurate and less confusing term to describe the connectivity elements.

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).

Editorial Suggestions

In paragraph 4.1, consideration might be given to revising the wording to "An integrated report includes the following Content Elements, answering ~~the respective~~ a specific question posed for each one of the elements." As the questions are introduced later in the chapter, we believe this will assist readers' understanding.

Paragraphs 4.8 and 4.9 discuss significant factors affecting the external environment. However, stakeholders are primarily interested in significant external factors that potentially affect the organization. Perhaps the IIRC could rephrase accordingly.

Paragraph 4.12 on remuneration and incentives is overly descriptive in relation to other aspects of the Framework. As this topic is already largely covered in the preceding paragraph, especially the last bullet point of paragraph 4.11, we believe paragraph 4.12 could be deleted. Additionally, some other parts of the framework, such as the second dash in the second bullet of paragraph 4.22, are unnecessarily detailed and could, therefore, be deleted.

Add a "Catch All" Disclosure Requirement

We recommend adding a "catch all" bullet at the end of the listing in paragraph 4.5, indicating the list is not exhaustive and organizations should disclose all other material matters that stakeholders should know to make informed economic decisions about the organization.

Discuss Opportunities and Threats in Context, Not in Isolation

Content element Opportunities and Risks (section 4.C) does not do justice to the fact that opportunities and ~~risks~~ threats don't exist in isolation,[6] but are, in fact, integral and inextricable parts of all other content elements.[7] This Framework should not encourage or sustain describing opportunities and threats in isolation, which is an outmoded practice. Instead, opportunities and threats should be better discussed in, or better integrated with, the context in which they come about, which could range from Organizational Overview to Future Outlook. This would also greatly reduce the risk of boilerplate disclosures on opportunities and risks (as noted in paragraph 4.16).

Subsequently, the IIRC could redefine and rename content element Opportunities and Risks into Risk Management and Internal Control, in which the reporting organization could describe the design and

6 Speaking about threats is conceptually more precise in this context. See our response to question 6.

7 Note, for example, the confusion that is created between paragraphs 4.13 ("What are the specific risks and opportunities") and 4.33 ("What challenges and uncertainties is the organization likely to encounter"). This is especially true as risk is defined as the effect of uncertainty on objectives.

operating effectiveness (i.e., performance) of its risk management and internal control arrangements. This would be further improved if this discussion is included in the discussion about the governance of the organization (section 4.B), reducing the content elements from 7 to 6.[8]

Adopt Scenario Planning as a Method to Assess and Describe Risk

The simple assessment of likelihood and magnitude to evaluate risks (paragraph 4.15) is no longer considered good practice, as a risk event might lead to a series of different effects or consequences, each with their own likelihood and magnitude. Scenario planning is a good alternative, and fits cleanly in the integrated report.[9]

In addition, risks don't "come to fruition" (paragraph 4.15, second bullet) as if they are lying dormant and waiting to come out. Risks do not exist in isolation but are inextricably connected to the objectives an organization wants to achieve. Perhaps this could be rephrased to specify that a risk event may occur and can have different consequences, from none to serious. Alternatively, consideration might be given to using a schematic formulation—a risk source might lead to a risk event, which might lead to a series of consequences. The key point, however, is that risks should not be assessed or reported on in an isolated manner.

Paragraph 4.17 states that, "An integrated report identifies the organization's approach to any risks…that could have extreme consequences, even where the likelihood of their occurrence might be considered quite small." This is both impractical and not particularly useful for the reader, as many risk events could have extreme consequences but only with small likelihoods for each of those extreme consequences. An alternative could be to say an integrated report should report on how the organization has assessed and treated all relevant material risks that have gone beyond the organization's limits for risk taking.

Refer to Specific Risk Management Guidelines

Please note that the recommended method to estimate the level of risk by computing its assessed likelihood and magnitude is often too simplistic. Therefore, the additional guidance in 5B is not actually helpful. Instead, this Framework could refer to specific guidelines in this respect, such as the recent ISO standard *31000:2009 Risk Management*.

Better Emphasize Objective Setting

Arguably, the content element Strategy and Resource Allocation will be the most difficult part of the Framework to implement because organizations will see this as laying out their competitive strategies, which they believe are highly secret and should be rarely disclosed outside of a small group of people within the business (see also our response to question 14). In this section, however, the objective setting element (mission, vision, strategic objectives) could be better emphasized in the title and the text of this content element.

[8] In fact, various bullet points in paragraph 4.11 already refer to risk management.

[9] Content element Future Outlook already contains many elements of reporting on the various scenarios, as does paragraph 5.15 on disclosing the range of possible outcomes and associated assumptions and probabilities in case of uncertainty surrounding a matter. This is especially true when taking into account that risk is defined as the effect of uncertainty of objectives.

In line with paragraph 4.19, paragraph 4.20 should be amended as follows: "The linkage between the organization's strategic objectives, strategy, and resource allocation plans…"

Expand Performance Content Element

Possibly, the content element Performance could be expanded to Performance and Capital Position/Effect on Capitals to express that both elements are necessary to make informed decisions about an organization.

Better Emphasize Interconnectivity of Future Outlook

The content element Future Outlook could better emphasize the interconnectivity and cycle pattern of the various content elements, as it rightly contains elements of all preceding content elements and, in turn, forms the basis for in all other matters that drive an organization.

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?

We do not believe there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report. However, we do recommend that those charged with governance sign the integrated report, thereby acknowledging their responsibility for it. In addition, the governance section in the integrated report could link to a designated part of the website that lists the various roles and responsibilities in the organization.

What is important is that both those charged with governance and management adopt integrated thinking, as a result of their respective acknowledgement.

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

Expand Guidance on the Roles of Those Charged with Governance and the Audit Committee

We believe that those charged with governance play a crucial role in effective integrated reporting. Therefore, the guidance could be slightly expanded by emphasizing that those charged with governance should also provide ethical and strategic leadership with respect to, and assume overall stewardship for, the organization's integrated reporting processes. They should also ensure that senior management has effectively undertaken its responsibilities relating to the organization's reporting processes, for example, ensuring that the appropriate reporting policies are adopted. Those charged with governance also have overall responsibility for approving all integrated reports before they are issued to external stakeholders.

The Framework does not mention audit committees, although they play an important role in many organizations with respect to business reporting, which could logically be extended to integrated reporting. The IIRC could consider adding the following paragraph: "The audit committee, in those organizations where relevant, on behalf of those charged with governance, should oversee the organization's integrated reports and reporting processes. It should also ensure that integrated reports are in accordance with policies, standards, and regulations. Therefore, it should meet with management and auditors and report regularly to those charged with governance."

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?

We believe that assurance should only cover specific aspects of the integrated report, as it would be very difficult to provide assurance on the forward looking information in the report. Assurance could be provided on the process to develop the information but not on all of the information itself (see also our general comment on assurance in our cover note). However, it must be very clear to the users of integrated reports which specific aspects/sections have been assured and which parts have not.

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.

Please see our general comments regarding the provision of assurance in the cover note.

Use Caution With the Word "Systems"

Paragraph 5.19 uses the term internal control *system*, which might be interpreted as meaning that internal control is considered a separate system, instead of being integral part of the management of the reporting process. We recommend revising the wording to say, "Organizations have ~~internal control systems~~ established internal controls…as part of the process for managing, reviewing, and reporting information."

In addition, paragraph 5.19 states that, "Organizations may also have activities that report on the quality or level of performance, such as performance certifications or compliance assessments." However, it is unclear to what quality or level of performance refers in this context—the report, the reporting process, or the internal controls?

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).

Take User Perspective More Into Account When Determining Materiality

As paragraph 3.23 rightly states, "a matter is material if…it could substantively influence the assessments of the primary intended report users." However, the guidance on how to determine this materiality in section 5B could better address the need for active involvement of the intended users, as reporting usefulness is about what is material to them (see also our response to question 11).[10]

Please also note our recommendation in question 16 to refer to specialist risk management guidelines for proper estimation of the level of risk instead of referring to this section (5B).

Refer to Uncertainties to Determine Reporting Boundary

Paragraphs 5.29 and 5.30 of section 5G discuss how opportunities and risks determine the reporting boundary. Building on our earlier remarks with respect to opportunities and risk, we note that the overlap and confusion with the discussion on disclosing uncertainties around material matters, as risks and uncertainties are fundamentally the same.[11] Clarification of this wording solves the issue regarding determining the reporting boundary as the organization should consider providing information about uncertainties surrounding material matters in the integrated report (paragraph 5.15); and it would mean that a separate discussion at paragraphs 5.29 and 5.30 is then no longer needed.

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 believe this consultation draft is an important next step to developing a practical and fit-for-use Framework. We hope that our recommendations will help the IIRC in the development of version 1.0 of the Framework. IFAC looks forward to continuing to contribute to this effort.

10 Paragraph 5.8 does mention the stakeholder perspective but in a slightly different context.

11 See *ISO 31000:2009 Risk Management* for a definition of risk as the effect of uncertainty on objectives.

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?

Several topics, such as how to implement an integrated reporting process or how to report on risk management and internal control, would benefit from explanatory material. However, in addition to developing such material, the IIRC could also usefully identify and refer to already existing guidance in many of these topic areas.

Refer to Already Existing Application Guidance

We would also like to draw your attention to our International Good Practice Guidance, *Principles for Effective Business Reporting Processes* (IFAC, 2013), which helps organizations enhance their integrated reporting processes and discusses the key issues professional accountants in business need to address when implementing effective integrated reporting processes in their organization. The guidance is available free-of-charge on the IFAC website. We invite the IIRC to include a link in its Framework to this existing guidance. We would be happy to collaborate with the IIRC and its stakeholders to further improve this guidance over time and make it more suitable for the development and implementation of effective integrated reporting processes.

Other

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

Consider Improving the Navigation Devices

The navigation devices might be improved by changing the consecutive numbering of the paragraphs to include the section indication. For example, change paragraph 4.6 into 4.A.1, which clearly delineates that this paragraph belongs to section A.