

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).

Comments should be submitted by Monday 15th, July 2013.

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If replying on behalf of an Organization please complete the following:

Organization name:	<input type="text" value="Larsen and Toubro Limited"/>
Industry sector:	<input type="text" value="Industrials"/>
Geographical region:	<input type="text" value="Asia"/>

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.

<p>a) Scalability of the framework to SMEs, the public sector and family owned businesses. b) Minimum requirements of an integrated report. c) KPI's are necessary to provide details of each capital. d) Comparability between different reports would pose problem</p>
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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.*

No, the current guiding principles are sufficient as of now, though may need to be modified as per the experience with the Integrated Reporting. However, "stewardship of the capitals and resources" could be a guiding principle, which would bring more accountability to the strategic focus and future orientation. Even though strategic focus and future orientation has been made a guiding principle, the report should balance information with the discussion about the current handling of resources. Connectivity between narrative, numerical and other information is necessary and is expected by various stakeholders. All this connectivity principle should possibly link all the resources and capitals, value drivers and business risks to enable the assessment of stewardship of the wider assets and obligations of the entity as well as its vision for the future. Forward looking statements under the future orientation principle will be influenced by the regulatory and legal environment where the entity operates, hence suitably cautionary language should be expected. A wide range of stakeholders will find the information in the integrated reports helpful, however the primary users of the report will be the reasonably informed and knowledgeable investors taking a longer-term view of the entity's sustainability in all its dimensions. Any report is expected to contain relevant information, hence materiality is inherent, however conciseness of the report cannot be an operational qualitative characteristic. Also, materiality definition may need to be revisited based on the experience with the integrated reporting.

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?*

IR should be a standalone report in terms of information. Complementing with other reports will reduce the readership of the IR. Also, the integrated reports should be made with the primary users in mind i.e. the knowledgeable investors and regulatory agencies. However, the integrated report should communicate with all stakeholders. Any additional information should be available online and provided in hard copy on request.

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?*

Global Reporting Initiative, ISO 26000, Carbon Disclosure Project, OECD guidelines, DJSI Questionnaire, AA1000 series, Corporate Sustainability Reporting Coalition

Other

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

The objectives and the definition of integrated reporting may undergo modification with the experience gained in integrated reporting as in the case of South Africa.

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 approach to capitals is correct as it tries to link the existing reporting concept of financial capital and the other resources on which a business depends and has an impact. This approach to capitals will initiate a new line of thinking for entities to consider new and a wider set of business risks and value drivers. However, reporting on the accountability of capitals not in control of the entity may need further guidance. Also, the guidance needs to be clear that capitals in the draft also include the global capitals and world resources on which the entity may have an impact including defining the boundaries for non-financial value drivers and business risks. Definitions of capitals may need further revisiting as per the needs of the different reporting entities. For eg. "manufactured know-how" could be included as intangible asset for financial reporting or "intellectual capital".

Each capital needs to be defined clearly and some guidance should be provided to the companies. KPI's need to be established for each capital so as to enable the companies to report clearly on each capital.

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

Reporting companies may need clarification about the reporting of the non-financial capitals during the early stages of reporting, regarding the wider factors (business risks/value drivers) impacting the entity's performance, prospects and strategy. Also, the concept of stewardship is understood and applied in the context of financial capital, however it may need to be clarified in terms of a multi- and non-owner capital context. Clarity is needed in terms of KPI's to quantify and explain value-drivers and resources other than the financial capital i.e. development of metrics is necessary which will allow benchmarking and evaluation of entities to be possible.

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?

Yes, the definition of the business model is appropriate with the central theme of reporting, as the ability of an entity to create and sustain value in short, medium and long term. This approach will enable a focus on an entity's value-creation activities and wider value-drivers and business risks.

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?*

Yes, as this definition will enable the entities to customize the information reported as per the material issues applicable to them.

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)?*

At present satisfactory, may need to be revisited with experience in integrated reporting.

Other

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

"Value creation" should give an idea to the users about the efficiency of entities and their ability to add value based on how they use the resources available to them.

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?*

Yes, we agree with the definition as the entities would have a variety of material issues for each of them. However, further guidance may be required by different organizations in defining materiality applicable to non-financial information.

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

Identification of material issues should also flow from stakeholder engagement as with the GRI guidelines.

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 ensured by providing balanced relevant information in a clear and unambiguous manner. The information should be complete, neutral and free from error and should be either internally or externally assured.
External Assurance

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

The experience gained with integrated reporting in different regulatory environments will further help in adapting these guidelines to the needs of the reporting entities.

Other

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

Scalability of the framework for SMEs, the public sector and family owned businesses needs to be addressed.

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).*

These content elements are generally adopted for large companies and hence the scalability of them for small or medium sized entities may need consideration. The KPI's should be classified similarly as per GRI (Core and additional indicators) and such critical KPI's should be given separate emphasis (Core and additional).

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. Although it may be dependent upon the relevant regulatory environment of the entity, the liability of those charged with governance should be actively considered as in the case of South Africa, where the board of directors, attest to the integrity of the integrated report.

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

The declaration of liability by those charged with governance should be similar to the financial reports. Also, this will lead to the extension of existing quality controls and audit processes to the non-financial information.

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?

Integrated reports should be definitely subjected to independent assurance, which will in turn enhance the quality of the report and increase its relevance to the users. The quality of the information provided in the report is fundamental to the success of the integrated report. However, this may present challenges, as there may be a need to obtain the services of different assurance providers for the different sections of the report. Also, it needs to be established about the criteria against which the non-financial information of the report will be evaluated and whether such criteria are relevant, complete, reliable, neutral and understandable. IIRC may need to work closely with assurance standard setters to develop a mechanism/standard/methodology which would be adopted widely. Also, depending upon the quality of the different information provided the level of assurance for different sections of the integrated report may vary. Also, assurance of the integrated report will lead to the extension of internal quality controls and audit processes to non-financial record keeping and data control, leading to better information being available to the decision makers.

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.

This will again depend on the regulatory environment as in some cases, simple compliance may be satisfactory. However, some regulators may undertake the additional responsibility to introduce new requirements. Experience gained from the introduction of the IFRS world-wide would be helpful in developing the institutional arrangements for the governance of integrated reporting.

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).

Nil.

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?*

The framework would meet the information needs of a wide variety of users in the ever increasing complexity of the global business environment. This framework does not intend to render the other reports less relevant as compared to the integrated report, but is complementary in nature. In future, it should also take advantage of digital media like the globally used open standards (eg. XBRL). However, the extent of financial information to be provided in the integrated report needs to be addressed. IR aims to provide concise reports whereas GRI focuses towards detailed reports. IIRC framework report is the one all investors will see, GRI will be only available on request.

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?*

- 1) KPI's for each capital
- 2) Assurance
- 3) Liability of those charged with governance

Other

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

We agree that the integrated report should become the primary report providing material and relevant information, specifically aimed at general needs of reasonably informed and knowledgeable investors. Also an international approach is necessary to ensure that the reporting framework has authority and acceptance, which will require working in a collaborative and inclusive manner with all relevant stakeholders in environments of different legal and political systems. Over the long terms, IIRC may need to consider a combination of attributes including size, industry, the jurisdiction of operation etc. to meet the requirements of small and medium-sized entities and not-for-profit organizations. Also, the benefits derived from integrated reporting should be highlighted. Integrated report will give more information to investors than they need and lesser information to the other stakeholders which they need. The existing framework also should have mentioned the complementarity with GRI and other standards. There may also be a limited number of assurance providers who may be able to cover all sections of the integrated report. Also GRI is developing the G4 guidelines which may prove to be duplication of efforts.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013