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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Stakeholder group:	Report preparers

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

Organization name:	WBCSD Members and Local BCSD Members in India
Industry sector:	Industrials
Geographical region:	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.

The WBCSD in India in cooperation with the Confederation of Indian Industry organised a IIRC workshop on 1 July 2013 in Mumbai for the purposes of soliciting feedback from businesses and other interested organisations on the Draft Consultative Framework.

The workshop was attended by 29 participants representing the following companies, professional bodies and service providers.

BPCL
Delcom Products India
EHS & Sustainability Consultants
Forbes Marshall
Hindustan Construction Company
Institute of Company Secretaries of India
Institute of Cost Accountants of India
ITC Ltd
Kansai Nerolac Paints Ltd
Kirloskar Brothers Ltd
Larsen & Toubro

M.S. Singhatwadia & Co.
Mahindra & Mahindra
Reliance Cement Company Pvt. Ltd
Reliance Industries Ltd.
Tata Motors
Tata Steel
YES Bank

In general the participants felt that the Draft IR framework was a free flowing concept that was too general and left too much discretion with prepares of reports. The lack of specific recommendations left a lot to the maturity of investors and preparers. In summary the Indian market required more facts and less narrative story telling.

However the on going changes to the Indian corporate reporting left participants confused and concerned how IR will or could be integrated with Indian landscape which is based on rules based mandatory disclosure. In addition it was agreed that no Indian investor is currently interested in non financial measures of value creation.

After a comprehensive discussion of the detailed content of the framework there was a number of open questions :

As long as it is voluntary how do we get buy in?

Does this add value for us? If so how do we start?

This needs to be mandatory

How does IR fit with PRI?

How should I collect data? How will investor know quality?

The framework doesn't address private, state owned or family business needs which is the largest sector in India and this was seen as a missed opportunity.

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 concept of Principles and Requirements are not understood. Why the need for the continued use of principles when it would make more sense just to have requirements?

Missing guiding principles are

(i) Transparency

(ii) Timeliness

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 felt that an Integrated Report should be a separate standalone document without too much cross referencing. It was felt that these paragraphs could result in and Integrated Report becoming an index for other reporting done by a business.

If IR is market led then the participants felts that the need to have integrated reporting in analyst calls will not be required for Indian Investors

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?*

National Accounting Standards for India
Indian National Voluntary Guidelines
Indian National cost accounting Standards
SEBI: securities and exchange board of India
NVGs: [new] National voluntary guidelines on social responsibilities of business
BRR: [new] Business Responsibility Report (mandated for top 100 listed companies in India)

ISO Standards
Sector Standards like WBCSD's Cement Sustainability Initiative Standards
http://www.wbcsdcement.org/index.php/about-csi/csi-charter

Other

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

The concept of concise communication is not defined. What is meant by concise?

There is a real and material expectation gap between Integrated Reporting in the minds of many businesses and the reality presented in the framework. It is fair to say that many businesses see IR as an other report when they were expecting a framework to facilitate and consolidate the annual and sustainability reporting today.

In some cases the definition an integrated report is disputed. The framework is essentially a communication on value creation and this is not reflected in the words "integrated report'

An integrated report is primarily for the providers of financial capital creates confusion and concern for businesses. They feel that a report for one stakeholder group only is detrimental to progressing sustainability issues in their businesses especially if the providers of capital are not interested in non financial performance.

Businesses want more rules and less principles. There needs to be more rules on how the principles can be achieved.

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 capitals attracted significant discussion. Although the group where aware of the paper on The Capitals all felt that there should be more specific guidelines in the framework itself.

The Octopus diagram was liked by some but caused confusion in others. Many participants interpreted the capital flows as linear and could not understand that an outcome on one capital was not dependent on having an input from the same capital stream. In general there was a call for a better explanation of the diagram.

Sectoral Guidance on the capitals to ensure consistency and comparability was recommended.

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 the participants struggled with how to make this operational

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

In general the concept of the capitals are too generic and the bandwidth is considered to be too wide for business to understand

Some of the capitals can not be quantified and this leads to too much subjectivity and inability to compare.

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?

Many businesses have more than one business models depending on the type of diversified portfolio of activities they have. Therefore this should be reflected in the definition as the chosen system(s) of inputs etc...

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?

This is agreed

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)?

N/A

Other

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

Value Creation is highly subjective and a detailed guidance document is needed. Paragraph 2.42 is particularly confusing.

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 essentially the traditional definition of risk and this was considered to be too limited and unrealistic for the purposes of reporting. Many participants could not see how to understand what is material to an investor given that 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. In India - compliance is the primary objective of reporting not story telling. Indian investors are not interested in stories. Stakeholder engagement and a matrix of impact on value compared with the impact on stakeholder is more appropriate How would it be possible to check if only the comfortable material items are disclosed?

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

Confusion between materiality statements. In the Consultation Questions the explanation to question 5 it states materiality decided by company where as the explanation before questions 11 states that materiality is determined by investor assessments

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?

The public nature of an integrated report drives the need for such a report to be accurate, timely, complete and accessable. The draft framework does not provide nearly enough guidance on accuracy, the manner in which the information in a report is collected, collated and presented, internal controls over non financial information and freedom from tolerable error.

As a public document addressed to existing and potential investors, assurance should be mandatory but consideration should be given to the issue of assurance over future events. A suggested approach is on the assurance of internal control environment and the system around the data capture plus opinion on the feasibility and reasonableness of assumptions on forward looking information and substantive testing of quantitative performance data. The absence of a standard for third party assurance is a key negative issue here

How does appropriate stakeholder engagement add to reliability and completeness when the text is focused on internal control and assurance?

There should be a board statement of ownership of the report and its content, that is its accurate to the best of their knowledge and that the describe the control environment they have in place

The Frequency of reporting both internal and external to the organisation should be also commented upon by management

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

Nothing further to note

Other

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

Many companies are worried about how to provide meaningful forward looking information without compromising competitive position. The anti-competitive clause is understood but also seen as a tool for many companies to hide behind.

Please avoid use of terminology specific to the UK such as Boilerplate (page 18). The term "story" is not seen as appropriate for a report. More appropriate language choice should be made.

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).

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?

There should be a board statement of ownership of the report and its content, that is its accurate to the best of their knowledge and that the describe the control environment they have in place.

However if this is a requirement then many Indian businesses, in the opinion of the participants, may not adopt the framework

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

The framework should spell out that it is the Board that is responsible for Integrated Reporting and Value Creation. There is a risk that businesses will discuss their sustainability or CSR committees which are defeating the purpose of integrated thinking.

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 focused on the accuracy of the information in the report and not on assurance that the framework requirements have been met.

Assurance over the content should be provided for the whole report.

Future looking targets and forward looking information is likely to be un-assured but the assumptions made by management should be assured for reasonableness

A Statement form the assurance provider that the internal controls over the data capture and consolidation are accurate should be included

Reasonable assurance on any numeric data provided

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.*

It is seen as an inefficient use of resources to have a report assured against the framework when the framework is so open to interpretation. Focus on the accuracy of reported information not on compliance with the framework.

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).*

The concept of continuous reporting is confusing and should be explained better.

The frequency of reporting is for many companies are major hurdle as there is currently a material gap between the production of the financial statements and sustainability information. Whilst internal system and process improvements can shorten this gap for certain industries information needed for an integrated report could delay the publication of the financial statements

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 participants did not know what the long term vision of the IIRC is. It was unknown if the IIRC will continue to exist and if not what organisation will own and manage the framework in the future.

It is recommended that the IIRC develop guidance on implementation of the IR framework. Participants recommended that a phased approach should be encouraged with a focus on the guidelines and some of the content elements and not on the preparation requirements initially.

Many businesses taking part said they might practice by implementing some of the elements of the IR framework into the existing sustainability reports to gain traction and understanding.

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 business case for doing this with proof that investors are asking for it. The investor research published in July by ACCA and Eurosif details recommendations that will not be met by the framework and this is causing confusion and concern.

A detailed document on Value

Why IR is different to other frameworks Internal Controls and Assurance

Other

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