

## 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.

EIRIS greatly welcomes the continued development of the integrated reporting initiative. Since our response to the IIRC discussion paper in 2011 we note the effort and progress that has been made to develop integrated reporting. EIRIS is also now part of the IIRC Pilot Programme Investor Network.

Integrated reporting will permit and embed externalities into mainstream accounts and reporting. This would enable the valuation of currently hidden costs (e.g. costs of climate change or biodiversity, for example). We encourage companies to integrate environmental, social and governance issues into mainstream accounts, for the full linkage of capital and value.

However, it is essential that the markets do not lose the wealth of information provided in sustainability / CSR reports. Concise and material information can aid investor decision-making, but investors also need the workings behind top-level statements, evidence for management decisions and wider information. Both the integrated report and separate sustainability report are needed.

We note the emphasis in the 2013 consultation paper on credibility. One way that credibility can be determined is for wider information to be available to support the top-level analysis in the integrated report. A comparison of both the top-level thinking and background data in other reports (such as sustainability reports) provides investors with insight. For example, if there is a gap between what management have identified as key risks / opportunities and what investors have identified as key risks / opportunities, investors have an assessment of a company's management.

In our view it is also important that integrated reports are encouraged to be found within financial reports. When companies separate integrated reports from annual reports, the link between financials and extra-financials may be lost. We encourage consolidated integrated reports that are published as part of the annual corporate report, with additional details reported either separately online or through a sustainability report if needed.

## 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.*

EIRIS supports the principles-based requirements. Those suggested provide a sound foundation for the preparation of integrated reports.

We support the emphasis upon strategic management and those charged with governance to collectively exercise judgement to determine which matters are material (see paragraph 1.13 in the consultation).

### ***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?*

EIRIS supports the proposed interaction with other reports and communications.

EIRIS would suggest that the IIRC encourage even more strongly that companies do not reduce the amount of information they produce overall, but to place it elsewhere and to make the integrated report a strategic top-level report. Paragraph 1.18 of the consultation states that "organizations may provide additional reports and communications (e.g. financial statements and sustainability reports) for compliance purposes or to satisfy the particular information needs of a range of stakeholders. The integrated report may include links to these other reports and communications."

Disclosure of information is valuable. Concise and material information can aid investors' decision-making, but investors also need the workings behind top-level statements,

evidence for management decisions and wider information. For example, a comparison of both the top-level statements and the background data provides investors with insight: i.e. if there is a gap between what management have identified as key risks and what investors have identified as key risks, investors have an assessment of company's management.

In the future, the existence of more detailed sustainability / stakeholder reports could act as a source of information that explains top-level statements in the integrated report, and a source of information about sustainability impact that may not have been material enough for inclusion in the integrated report.

EIRIS also supports the intention that the Framework does not prescribe specific indicators or measurement methods to be used in an integrated report. The IIRC may wish to suggest some examples of indicators and measurement methods developed by others, but there are comprehensive lists elsewhere (e.g. Global Reporting Initiative) and companies should be free to choose their own measurements based on a knowledge of their own business.

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?*

EIRIS would not suggest trying to list all indicators, as we feel strongly that this approach could encourage boilerplate responses.

Sufficient guidance is also missing on how to find indicators. Instead, it could be useful to have some guidance about what could be material. The absence of guidance could lead investors and others to become frustrated by the quality of integrated reports. In our view, an example of good guidance is the Accounting Standards Board's guidance under the original Operating and Financial Review proposed in the mid2000s.

#### **Other**

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

## **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?*

EIRIS supports the approach to capitals.

In our response to the 2011 IIRC discussion paper, EIRIS noted that the lack of monetary valuation for some of the proposed capital streams is the very essence for the need of integrated reporting. EIRIS emphasised that the initiative must focus on providing comparable metrics for the sub-valued capital streams to permit meaningful value analysis.

We support the emphasis in the 2013 consultation on explaining the different types of capitals and their link to value.

In paragraph 2.9 of the consultation it states that "the organization and society therefore share both the cost of the capitals used as inputs and the value created by the organization". This is a good point to make.

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

### **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?*

EIRIS supports this definition of a business model. A company's internal value chain includes inputs and outputs, drivers and objectives and the processes inbetween. These steps can influence a company to become more sustainable in the long term.

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?*

EIRIS supports the definition. It takes into consideration the wider impact of corporate activity beyond the financial balance sheet. It considers the value, the destruction of value, and the stored value in other areas that the company impacts.

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)?*

The reference to planetary limits is very welcomed. Company reports are more valuable if they are placed in a sustainability context (global, regional and industry-based).

### **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?*

We accept that the primary report users of integrated reports are the providers of financial capital. However, perceptions of what is material for each company may differ somewhat between investors. Not all investors place the same valuation on any given company. Certain investors may place greater or lesser emphasis on any more or less of the six capitals mentioned in the consultation document, according to their investment philosophy and approach to Environmental, Social and Governance issues. We would expect a lot of commonality, but commonality will not always exist.

Materiality is therefore to be determined by reference to both the primary intended report users as a collective group and by reference to the company's own knowledge of its business at that point in time and whilst reflecting on short, medium and longer term developments.

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

We welcome the reference made in paragraph 5.5 to long term matters.

Integrated reporting would be encouraged to work with other standard setters/guideline providers for the speedy development of globally applicable sector-specific guidelines for materiality.

### **Reliability and completeness (Section 3E)**

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

*13. How should the reliability of an integrated report be demonstrated?*

Reliability can be enhanced by establishing systems and processes that can provide required information to those making the assessments and the strategic thinking for inclusion in the integrated report. Some of the processes needed to provide this information may require a cultural change in an organisation.

Another way to judge reliability and completeness is to implement systems and processes internally that disclose how accurate the assessments / judgements made in each integrated report have been post event. This could be a board review process two years on from the integrated report's production, for example.

Another way to judge reliability is to produce other reports and materials with fuller information, publicly available or at least available to providers of capital, which allow investors to judge for themselves how reliable and complete the management's assessment of risks and opportunities is. This is why sustainability and stakeholder reports will remain key when complemented by more strategic, top-level integrated reports.

Third-party auditing of the integrated report is also crucial. External assurance and audits (when relevant) enhance reliability.

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

We note the point made about commercial sensitivity. However, as noted in the consultation, this should not be an excuse for failure to consider or disclose information in the integrated report. Case studies to show how information on market positioning can be disclosed without exposing market-sensitive data could be provided.

#### **Other**

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

## **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).*

EIRIS particularly welcomes the section 4G on future outlook. There is a need generally for forward-looking reporting which takes greater account of long-term risks to a company, and as the NGO ShareAction argues, forward-looking reporting that is also independently audited.

EIRIS also welcomes the point made in Chapter 4 regarding the avoidance of boilerplate disclosures.

Concerns have been raised about the business sensitivity of some of the required information. Case studies to show how information on market positioning can be disclosed without exposing market-sensitive data could be provided.

## **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?*

EIRIS would support the requirement for those charged with governance to have a statement acknowledging their responsibility for the integrated report, provided systems were in place to explain that responsibility. This would encourage greater care in the collection of material and the judgements made in determining the content of the reports.

In our view, boards should have greater responsibility for environmental and social risk management and overall sustainability of the company as part of good long-term governance. The board as a whole, and therefore the directors, should have the skills or be given the training, to have this ability. At the very least, environmental and social risks should be the responsibility of one director on the board, although it would be better to integrate it (as appropriate) into the overall structure and composition of the board, in terms of competence, strategy and mandates.

As stated in EIRIS' response to the consultation 'A Long-term Focus for Corporate Britain', any directors with specific responsibilities in relation to risk management systems could be given explicit responsibility to ensure that long-term as well as short-term risks are given proper consideration within their work.

We have suggested in the past that environmental, social and governance issues should be included as numeric targets where possible. Integrated reporting targets could similarly be included as numeric targets. For example, EIRIS supports EUROSIF's view that remuneration strategies should be linked to ESG performance on a

'comply-or-explain' approach, whereby companies disclose the extent to which, and how, ESG targets are incorporated, or explain the lack of ESG targets integrated into remuneration strategies. Perhaps something similar could be created for integrated reporting targets.

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

### ***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 would ideally cover the whole report.

However, in either case, auditors' liability would need to be clearly defined. If non-financial information was to be audited by auditors, auditors' liability and responsibility would need to be defined in this area (similarly to financial auditors).

External auditing brings credibility, greater accountability and transparency to the reporting process. Currently, there are industry-body best-practice standards in existence for some non-financial information (e.g. the International Council on Mining and Metals). As long as independence can be proven, then this form of reviewer is acceptable and credible.

Auditors reports should not be limited to only stating if what has been audited is true, but also making suggestions for improvement in scope, detail and the quality of reporting. This would provide an extra layer of reassurance for report users (as long as the auditor's responsibility and independence are credible).

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.

Concerns amongst the accounting and reporting community exist in the preparation of assurance reports due to the lack of a common body of practice that is globally binding. This links with the issues of liability highlighted above.

### 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).

### 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?

EIRIS believes that the overall content of the Framework is appropriate for use by organisations in preparing an integrated report. The IIRC should continue the excellent work it has done with a multitude of stakeholders to ensure the continued development of integrated reporting over time.

### 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?

- How to give forward-looking analyses and judgements
- How to select which information goes in an integrated report and which information goes in a sustainability / stakeholder report
- The creation of guidance for materiality decision-making e.g. guidance that suggests 'if you have considered this risk, have you considered this possible risk...?'. Companies need to think outside the box about where risks are coming from in the future. It is not possible to anticipate all possible risks, but companies can try to do so, however complex the task.

### Other

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