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July 15, 2013

Mr. Paul Druckman, FCA
Chief Executive Officer
The International Integrated Reporting Council
By e-mail via website
www.theiirc.org/consultationdraft 2013

Dear Mr. Druckman:

Re: Consultation Draft of the International Framework – Integrated Reporting

Chartered Professional Accountants of Canada (CPA Canada) is pleased to comment on the Consultation Draft of the International Integrated Reporting Framework. CPA Canada is the national organization representing the Chartered Professional Accountant (CPA) profession in Canada. The Canadian Institute of Chartered Accountants (CICA) and The Society of Management Accountants of Canada (CMA Canada) created the organization on January 1, 2013, to support unification of the Canadian accounting profession under the CPA banner. CPA Canada is responsible for providing services to CAs and CMAs on behalf of CICA and CMA Canada as well as to CPAs and CGAs participating in the unification effort. CPAs will serve the public interest across all sectors of the economy with integrity, sound ethical practices, disciplined regulation and proven strategic management and financial expertise. Accounting bodies representing almost 90 per cent of Canada's professional accountants are committed to unification or have already merged under the CPA banner.

Our comments on the Consultation Draft have been formulated after promoting and reviewing it with primary stakeholders in Canada's performance reporting community. This included sponsoring the Canadian launch event for the Consultation Draft and explaining the proposals in a CPA Canada webinar attended by over 1,000 participants. The proposals were also reviewed with CPA Canada's Canadian Performance Reporting Board (CPRB) and Sustainability Advisory Board (SAB), the volunteer boards established to enhance the quality of organizations' external performance reporting and provide critical insight on priority sustainability issues. A working group was then established that reviewed the proposals in detail and developed this response, in consultation with the CPRB and SAB.

Our responses to the consultation questions are set out in the attachment to this letter. In addition, however, we have some general comments about an organization's ability to prepare an integrated report, the current demand for such a report, and the process to develop an integrated reporting framework.

CPA Canada agrees with the concept of an integrated report that would provide a concise report about how an organization's strategy, governance, performance and prospects lead to the creation of value. In today's business environment, there is general agreement that various aspects of the current business reporting framework need to be streamlined. As well, there is increased demand for environmental, social and governance information that has the potential to affect investment decisions to be better integrated and connected in one external report, instead of using today's separate reporting strands. In our view, however, few organizations currently have sufficiently integrated and robust systems and processes or an integrated thinking mindset necessary to generate a reliable integrated report.

While we agree there should be benefits to an integrated approach to reporting, we see little evidence, at least in Canada, that providers of financial capital are demanding an integrated report. In our view, there will need to be clearly demonstrated capital allocation benefits to encourage widespread voluntary adoption. In the meantime, however, we note over 90 companies have participated in the pilot program, and others may join them. These companies no doubt decided to participate in anticipation of reaping benefits from an integrated approach to reporting.

The concept of an integrated report as proposed by the IIRC is both new and complex. Accordingly, we are pleased that the IIRC has established a pilot program for both preparers and investors. The current workplan, however, calls for version 1 of the Framework to be published in December 2013, and for the pilot program to conclude in September 2014. There is much to be learned from the pilot program about issues with the Framework and how it can best be applied. Therefore, to maximize these insights, we believe the pilot program should be extended beyond September 2014. As well, we believe version 1 of the Framework should not be published until the pilot program is complete, to enable revisions to the draft Framework to consider everything learned from the pilot.

With the above points in mind, we provide our detailed comments on the Consultation Draft to foster the evolution of relevant integrated reporting. We hope they are useful. Should you wish to discuss them in greater detail, please contact Pamela Campagnoni, CPA, CA, CPA (Illinois) at pcampagnoni@cpacanada.ca, or Chris Hicks, CPA, CA at chicks@cpacanada.ca.

Yours truly,

Kevin J. Dancey, FCPA, FCA
President and CEO

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Responses to IIRC Consultation Questions

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.

Response

We do not think any additional principle-based requirements should be added to the Framework. However, some paragraphs in the Consultation Draft (CD) use prescriptive terminology that we find inconsistent with a principles-based framework, for example 4.12. We believe prescriptive terminology should be removed or altered to rectify this concern.

As well, the consistency and comparability principle would benefit from additional guidance about how to develop useful qualitative discussions that can help users draw comparisons between organizations.

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 (paragraph 1.18-1.20).

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

Response

No comment.

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?**

Response

Some examples of decision models to assist organizations determine appropriate measures would be useful. One such example would be CPA Canada's publication series *Future Value Drivers*.

Other

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

Response

Placement of content

We believe the Overview section would be improved if the "audience" and "application of the framework" discussions were to be relocated to the Fundamental Concepts and Guiding Principles sections, respectively.

Extent of detail contemplated in an integrated report

The extent of detail anticipated in an integrated report is not clear. On the one hand, the CD notes it should be a concise communication about how strategy, governance, performance and prospects lead to the creation of value in the short, medium and long term. The idea of a concise report is further reinforced by the CD's reference to the need for additional reports such as financial statements to satisfy compliance needs. Accordingly, it seems that a report outside those required by the statutory reporting cycle is contemplated, which, for some information, would cross-reference such reports. On the other hand, all material matters are expected to be reported in an integrated report and this should include discussions such as a description of the business model and management processes such as materiality determination.

Further discussion of the level of detail contemplated would be useful. In Canada, for example, much of the information contemplated in the CD would seem to be captured by following CPA Canada's guide *Management's Discussion And Analysis – Guidance on Preparation and Disclosure*. As well, we note that in various areas, such as business model, risk, and materiality determination, investors who are familiar with an organization are not interested in the entire discussion, but rather focus on the changes from the last reporting period. In areas such as these, restricting the integrated report to a discussion of the changes and providing more information by cross-referencing to other publicly-filed documents could be a useful way of contributing to a concise report.

Timing of integrated report preparation

There is significant concern about the proposal to prepare an integrated report at the same time as annual statutory reports. We believe this would create significant resource issues and that the CD should discuss the resource implications arising as a result of the proposed timing of an integrated report. At the same time, we recognize that if the integrated report is not prepared on a timely basis with all the statutory reporting it loses its value for investors.

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?

Response

We found the CD confusing as to the extent of compliance expected around reporting the six capitals in an integrated report. While the concept of the capitals set out in the CD provides useful guidance for organizations in determining whether they have considered all matters that are significant to performance, many organizations will find that the capitals in the CD are inconsistent with their approach to managing the business. As well, the capitals discussion focuses on the effects of each capital in isolation, whereas we believe a much more integrated discussion of capitals is needed. In addition, we believe the CD should be clear that there is no necessity for an integrated report to report in conformity with the six capitals discussed in the CD.

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

Response

No further comments.

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?

Response

While we agree that a discussion of an organization's business model will help users understand the organization, we believe the defined business model is oversimplified and incomplete. We do not believe that the Framework should define a business model or its components. It should be for organizations to communicate their business model in their own terms rather than be forced to comply with components established by the IIRC. Many organizations would summarize their business model in terms of matters that are driving change in the business. In this regard, we note that the CD places very little emphasis on technology in the Framework's discussion of business model, yet this is often the single most important factor for change in an organization.

8. 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). Do you agree with this definition? Why/why not?

Response

Refer to responses to questions 5 and 7.

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 (Section 4E).

Response

No further comments.

Other

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

Response

The CD notes that an integrated report explains how an organization creates value over time. The value creation section of the CD notes that value encompasses not only the present value of future cash flows but other forms of value that the organization creates through the increase, decrease or transformation of the capitals. Meanwhile, the capitals section of the CD notes that some of the capitals would have different values depending on the perspective taken. As well, that section acknowledges that it would not be practical to expect organizations to attempt to quantify all uses of and effects on the capitals, apparently recognizing that in some circumstances there may be no reasonable way to value a capital.

These statements result in a confusing image of what is meant by creating value over time. We believe the value creation and capitals discussions need to be better integrated and focus on what would be a useful representation for a provider of financial capital. This part of the CD might be enhanced if it were to concentrate on the traditional idea of value creation for the organization, measured in discounted future cash flows, and discuss how other capitals enhance or jeopardize the organization's ability to continue creating value. This seems to be the essence of the CD statement that the purpose of an integrated report is *to provide information that enables the intended report users to assess the ability of the organization to provide value over time*. In that event, the material should discuss how to incorporate a useful objective qualitative discussion of those capitals not subject to a quantitative assessment. As well, perhaps it should be up to an organization to provide its definition of value for each of the capitals it discusses.

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?

Response

We agree with the focus on providers of financial capital as the audience for an integrated report. Any other approach would not result in a concise report due to the disparate demands for information among the various stakeholder groups.

The CD's definition of materiality differs from that which is generally accepted in traditional financial reporting, as defined by the International Accounting Standards Board and Canadian securities regulators. The proposed definition that considers whether a matter will have the potential to substantively affect strategy, business model or any of the capitals in the short, medium or long term will result in an extremely large number of material items. This will particularly be the case for matters that have a potentially large affect but a low likelihood of occurrence. The definition will result in confusion, especially when considering that much of the information for an integrated report will likely have been drawn from an organization's traditional financial reports.

The concept of materiality discussed in the CD is further complicated by the prioritization process it contemplates that includes a potential to reassess the materiality threshold. The described process suggests that when applying the Framework, the quantum of material matters found by an organization could be larger than they should be. If that is the case, the materiality approach is not working.

In our view, the CD focuses too much on materiality whereas identifying, assessing and prioritizing are probably the more relevant concepts. We found the Framework did not provide enough information to help differentiate and prioritize items. We believe this section needs to be reframed in terms of prioritization and more guidance should be provided to help an organization determine the key items to report in an integrated report.

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

Response

We recommend the Framework consider suggesting alternate modes for providing detailed information – perhaps, some of the information could be disclosed on the website or a hyperlink could be provided in the online integrated report. There needs to be more discussion in the Framework about these disclosure alternatives for organizations. This is a key discussion area as it helps ensure the integrated report is concise.

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?

Response

In our view, most organizations strive to provide reliable information in their external reporting. Given the developmental stage of the Framework, it is too soon to be contemplating reliability enhancement mechanisms beyond the extent to which they are already addressed in the CD. Our comments on external assurance are set out in the response to question 20.

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

Response

No further comments.

Other

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

Response

Chapter 3, Section 3C - Stakeholder Responsiveness

The CD notes that an integrated report should provide insight into the quality of an organization's relationships with its key stakeholders and how and to what extent it understands, takes into account and responds to their legitimate needs, interests and expectations. We agree that it is important for organizations to understand the needs of their stakeholders. As well, we agree that providers of financial capital want to understand the measures an organization takes to obtain an understanding of its stakeholders.

We find it unlikely, however, that an organization would be able to report the quality of the relationships with its various stakeholders, who in any event are likely changing fairly frequently. Furthermore, it would be very difficult for organizations to discuss the quality of the relationships in an objective manner. In our view, it would be better for organizations to discuss their approach and/or process for stakeholder engagement, rather than the quality of the relationship. Accordingly, we believe this aspect of the Guiding Principles should be reframed in terms of the approach taken to understand stakeholder needs.

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).

Response

Chapter 4, Sections 4F and 4G – Performance and Future Outlook

We agree that an integrated report should have a future orientation. The performance and future outlook sections of the CD, however, place far too much emphasis on quantitative future-oriented information, for example paragraphs 4.31 and 4.37. In the Canadian environment, there are various securities regulatory compliance requirements that must be observed when reporting quantitative future-oriented information and these requirements result in significant monitoring and maintenance costs. Furthermore, organizations are reluctant to include certain forward-looking information that may result in compromising their competitive position in the marketplace.

Accordingly, we believe the forward-looking information section of the CD should focus on qualitative discussions about progress towards specific goals. The CD should also encourage quantitative discussions, but it should frame this discussion in the context of the reliability of the information and its cost/benefit in light of the costs to monitor and update the information. In addition, it would be useful to stress the importance of reporting actual performance against targets when quantitative forward-looking information is presented to enable readers to gain an understanding of the organization's ability to predict future outcomes.

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?

Response

We do not believe that those charged with governance, an oversight function, should provide a statement acknowledging their responsibility for the integrated report. Identifying the governance body responsible for the oversight of integrated reporting in the report, as advocated in the CD, should be sufficient.

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

Response

No further comments.

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?

Response

Refer to our response to Question 20.

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.

Response

While we believe that assurance over an integrated report would add to its credibility, there are significant hurdles to overcome before assurance services on integrated reports could become commonplace. For example, the Guiding Principles in the Framework are quite broad, and therefore do not have the characteristics of suitable criteria on which an assurance service, performed in accordance with standards for such engagements, would need to be based.

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).

Response

No further comments.

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?

Response

We agree with the concept of an integrated report that would provide a concise report about how an organization's strategy, governance, performance and prospects lead to the creation of value. In today's business environment, there is general agreement that various aspects of the current business reporting framework need to be streamlined. As well, there is increased demand for environmental, social and governance information that has the potential to affect investment decisions to be better integrated and connected in one external report, instead of using today's separate reporting strands. In our view, however, few organizations currently have sufficiently integrated and robust systems and processes or an integrated thinking mindset necessary to generate a reliable integrated report.

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The concept of an integrated report as proposed by the IIRC is both new and complex. Accordingly, we are pleased that the IIRC has established a pilot program for both preparers and investors. The current workplan, however, calls for version 1 of the Framework to be published in December 2013, and for the pilot program to conclude in September 2014. There is much to be learned from the pilot program about issues with the Framework and how it can best be applied. Therefore, to maximize these insights, we believe the pilot program should be extended beyond September 2014. As well, we believe version 1 of the Framework should not be published until the pilot program is complete, to enable revisions to the draft Framework to consider everything learned from the pilot.

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?

Response

No comment.

Other

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

Response

Separate integrated report or a MD&A incorporating integrated reporting requirements

Even though the CD suggests a stand-alone integrated report in addition to statutory reporting, we found there is significant discussion around whether to prepare a separate integrated report or prepare an MD&A incorporating the integrated reporting requirements. If the integrated report were to be a more comprehensive MD&A that contained an executive summary, some of the concern around an additional report might be mitigated, although in that event there would be regulatory compliance matters to be considered. Options for what could constitute an integrated report need more clarification.

Detailed comments

- We found there is a lack of cohesiveness between the chapters of the Framework. For example, the significance of the various capitals as fundamental concepts does not seem to be reflected in the content elements that contain relatively little information describing how these capitals should be reported.
- In several places there are requirements to discuss management processes that are not consistent with a concise report.
- The unavailability of reliable data at 1.12 would benefit by being accompanied by a cost/benefit discussion.
- The improved system discussion in 3.41 would benefit from a cost/benefit discussion.

- An organization's value drivers are described as those over which it has some control, which will not always be the case, for example in some organizations raw material prices are the most significant value driver.
- In various places, the CD views the decision making process as a collaborative effort of senior management and those charged with governance, which is inconsistent with the Canadian perspective on governance as an oversight function, not management.
- The CD believes that for quantitative indicators to be reported they need to be used by the organization. In our view, knowledgeable investor demand could also drive this.