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.

Name:	Helen Murphy
Email:	helen.murphy@ipieca.org
Stakeholder group:	Report preparers

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

Organization name:	IPIECA
Industry sector:	Oil and gas
Geographical region:	Global

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.

IPIECA is the global oil and gas industry association for environmental and social issues. IPIECA was formed in 1974 following the launch of the United Nations Environment Programme (UNEP). IPIECA's membership includes:

- 36 companies, comprising all 6 supermajors and 7 national oil companies
- 16 associations, forming a network representing over 400 oil and gas companies.

IPIECA recognises the merits of improved connectedness and consistency of reporting practices based on statutory financial annual reports and voluntary sustainability reports for all shareholders and stakeholders alike. However, the reporting companies within IPIECA recognise the challenges to achieve such consistency, for example, in terms of purpose, scope, definitions, boundaries and audiences. Attempts by organisations and companies to improve reporting effectiveness, for example communicating how social and environmental considerations are integrated within business decisions are therefore welcome, and help provide others with examples to consider. This new framework for Integrated Reporting from the IIRC is therefore considered from the perspective of seeking continuous improvement in reporting practices. Our comments are consequently intended to be constructive, particularly because the framework as presented seems to have a specific focus in terms of reporters (i.e. private sector), content (i.e. creation of value) and audiences (i.e. providers of capital). As such, our comments are directed at how this focus adds to the overall aim of improving the reporting practices of international oil and gas companies.

IPIECA recognises that a company's reporting practices need to consider the following challenges:

• How to define a core set of material issues across timeframes to accurately communicate risk

• How to make reporting accessible and informative to a broad audience of stakeholders

• How to balance building a comprehensive report with a concise document

• How to set clear and quantifiable guidelines to improve comparability.

The framework needs to have a much greater precision and clarity to define what information is currently absent and needs to be provided / developed. The word "integrated" implies that this report should "bring together" existing sources of information. To the contrary, the report seeks instead to "complement" (1.19) and "differ from" (1.20) the content of existing public reports and to identify content that primarily satisfies the perceived needs of one specific report audience, i.e. providers of capital. The term integrated is therefore misleading as it raises the question "integrating what?" Despite the specificity of audience and a specific goal to focus on short, medium and long term value creation, there is a lack of definition on what sources of information, currently undisclosed or unavailable in public reporting, comprise the information targeted for "integration".

The framework could instruct reporting entities directly on how to address a perceived lack of "integrated thinking" directly by defining and demonstrating how to improve existing public sustainability and annual reports rather than creating a new report. The conceptual term "integrated thinking" regarding strategy tries to provide some clarity of purpose but implies that strategic thinking, as expressed today in other public reports, is not sufficiently integrated. It would have been helpful to receive specific guidance on improving existing reporting tools. Instead, the draft framework seeks to establish a new stand-alone public report which will inevitably duplicate sources of information within existing reports in order to satisfy audience such as equity investors and lending banks, who have the communication channels to access the required information by more direct and efficient means,.

Further, there is a contradiction between the notion that an integrated report should be a 'stand-alone document' but should also provide links to other reports and communications which would then need to be taken into account by its readers to gain a complete picture of the reported information (see 1.18 and 4.4).

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 principles-based requirements are effectively “in accordance” criteria that require the reporting company to meet six Guiding Principles and nine Content Elements. Taking into account the scope of the six categories of capital and the number of material matters that a company may identify related to value creation, a report that meets all principles-based requirements has the potential to be detailed and extensive, providing a dilemma when attempting to produce a complete and comparable report that is sufficiently concise to be readable. While the requirements individually may seem logical, in combination they are likely to make the reporting task complex and onerous. Thus, it is suggested that requirements are streamlined and more narrowly defined with the aim of producing a more concise report. It is difficult to suggest eliminations without greater clarity on what is most important to the stakeholder audience, and therefore what can be omitted. Further comments provided below to the remaining questions are also relevant to this response, as these supply more detailed feedback on capitals, value creation, the principles and the content elements.

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 anticipation that a stand-alone annual <IR> will be prepared (as a “requirement”) clearly increases the reporting burden for companies and therefore the value of this extra work needs to be clear. The complementary and differentiated approach in these paragraphs is not convincing as there are clearly overlaps today between <IR> and both statutory annual reports and sustainability reports, and these overlaps will not be avoided. For instance, in an <IR> could any oil & gas company today omit the risks of climate change through its track record, policies and strategy – even though this should be reported in a 10K/20F or sustainability report? Or could any company produce an <IR> without reporting on historical performance around major incidents and future measure to reduce the risk of recurrence – even though these are extensively reported in that company’s other public reports? The intent here is therefore misleading without further guidance on what is intended by “complementary” and “differentiated”.

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?*

It is important for the <IR> framework to recognise that companies’ highest reporting priorities will be to meet regulatory requirements. The framework is not currently clear about how or if it aligns with national or regional requirements for financial reporting. For example, IPIECA members noted that the <IR> is not fully aligned with US and UK statutory reporting requirements.

For non-financial reporting, GRI provides comprehensive guidelines which are generic in terms of applicability. For the oil and gas industry specifically, there are two key authoritative sources: IPIECA / OGP / API "Oil and gas industry guidance on voluntary sustainability reporting - 2010 update" and the GRI Oil and Gas Sector Supplement.

Other

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

The first bullet point of 1.5 Objectives of <IR>: "Catalyse a more cohesive and efficient approach to corporate reporting that communicates the full range of factors that materially affect the ability of an organization to create value over time, and draws together other reporting strands'' is not really clear. The objective of the integrated report is very important – and this point needs to be clarified.

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 six categories of capital are an attempt to integrate the scope of financial and sustainability reporting and highlight how intellectual, human, social and relationship categories are (or can be) of equal importance to financial and manufactured capital. However, apart from the categorisation of reporting aspects, the view that these can be a benchmark is likely to be limited within some of these categories, particularly the Intellectual, Human, Social and Relationship, and Natural capitals. This is because these are not generally quantifiable or easy to delineate. As a result, the subjective qualitative evaluation of the relative level of capital is likely to differ so much between companies that benchmarking, either between the capitals or between regions, sectors or companies, will be of very limited value. While IPIECA member companies currently report on all of these categories, there may be resistance from the financial community (internal for companies and for investors) to reporting that attempts to consider quantifiable versus qualitative information within the same basis.

Further, in terms of accounting for impact on capitals, it is not clear how the requirements of 2.25 can be met without further explanation in the framework about how companies can determine the complex interdependencies and trade-offs between capitals and then apply this in a practical way to its reporting boundary.

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

Without the inclusion of consistent, clear and quantifiable metrics associated with the capitals, investors and society at large may find it challenging to compare between sectors and understand the true impacts.

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?

This is broadly a similar model to that used by an experienced reporter to describe a company's value creating activities in its Sustainability Report and/or Annual Report. It is, however, not that precise in terms of economics and could have drawn from a more robust quantitative basis for inputs and outputs.

In addition, 4.22 states that the report considers factors such as: ''how the organization differentiates itself in the market place (e.g., product differentiation, market segmentation, and channels used to communicate with potential customers and deliver market offerings)'' which could be considered competitive / confidential information.

It is also important to note that material matters in each timeframe (short, medium and long) differ widely. What is defined as a material risk in the short-term may not be relevant across the long-term, and vice versa.

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?

Though using different terminology, the outcomes are simply equivalent to the consequences from a risk based assessment of an organisation's economic, social and environmental (i.e.) sustainability impacts (positive and negative) expressed in financial terms (i.e. positive or negative effects on value creation). A company's existing risk-based assessments at the enterprise level should logically include material matters identified across the entire value chain.

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)?

While there is an expectation of conciseness, the detail required to adequately describe a large diverse company's business model could be extensive, even when restricted to material aspects of the business. Also note that the business model should be stable even for the long term and certainly not change every year. Therefore this content should probably become reference information on a website in support of all public reports and audiences, rather than forming a significant section of an annual stand-alone <IR>.

In particular, in section 2.28 it is not clear what level of detail is required in terms of disclosure around inputs. At a high level the information may not be meaningful, and at a detailed level it may not be practical.

Other

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

Re 2.36: the reporting boundaries described for the business model in terms of outcomes are currently rather vague (see response to question 21 regarding Chapter 5). This is illustrated by the specific examples in 2.36 (e.g., carbon emissions caused by products the organization manufactures and labour practices of key suppliers), which both demonstrate the complexities that would arise for an oil and gas company. When considered in value creation terms, carbon emissions caused by products would be a crude estimate as companies know the carbon content of sold product but cannot quantify how efficiently products are consumed or the economic contributory value of the products to end-users. Similarly, detailed reporting on labour practices of key suppliers would require definition of who is key among thousands of suppliers, and such reporting could introduce unnecessary overlap with the suppliers own reporting boundaries.

Re 2.37: the 4th bullet point would benefit from additional explanation and some examples of what sort of tradeoffs could be included in the report (''how the organization has used and intends to use the different capitals, the effects on and the trade-offs between those capitals over time'').

Re 2.44: as there are typically many complex externalities, this reporting requirement would benefit from examples of what is meant by externalities related to "capitals that are not owned by the organization", particularly in relation to the reporting boundary (see 2.25).

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 approach to materiality here differs from sustainability reporting which aims to ensure disclosure of all matters important to the company and its stakeholders. This largely arises from the fact that material matters related to value of an enterprise are fundamentally different from those society deems material. The <IR> approach is basically a prioritization process with a risk-basis, primarily intended for providers of financial capital as stakeholders. The process (see paragraph 5.11) appears to be risk-based i.e. on likelihood and consequences of matters affecting value creation. Thus it is difficult to justify confusing readers by referring to this as an approach to materiality given its equivalence to enterprise or other risk management approaches. While the material matters are likely to focus more on risks related to financial capital, the other capitals will potentially broaden the outcomes to include risks disclosed in Sustainability Reports, 10K/20F filings or annual reports. It would be naive to believe that a company will have any new risks to report in an <IR> beyond those already disclosed and/or communicated. To avoid confusion, it would be better to either adopt the language of risk here or ensure the materiality approach is more aligned with sustainability reporting.

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

The key information under 5.15 could be substantial, and it is difficult to see how this information would not overlap with disclosures requested by GRI and other for sustainability reports, particularly in terms of the bullet point on management actions and quantitative / qualitative disclosures for prior periods. There may be legal limitations regarding forward-looking statements and targets in a financial document (3.25).

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 and completeness processes should not differ from existing company reports, which will take into account materiality of disclosures. Reports can therefore be supported by explanation of management and internal control systems, and independent assurance, as appropriate.

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

It does not seem to be clearly understood that "balanced reporting" should automatically be an outcome of a robust materiality process. It is also to be noted that 'conciseness' often conflicts with 'completeness'.

Other

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

It is to be noted that the IIRC has not defined "conciseness" (e.g. as a maximum number of pages). This guidance is key because the basic assumption is that investors don't read the reports currently produced because they are too long. Therefore the aim for the <IR> to be "concise" is understandable. But if a large international company with several business activities needs 150 to 200 pages to tell its story, will it still be deemed concise or will the investors be put off by the sheer length and not read it? In addition, it is unlikely that integrated reports will achieve conciseness and usability unless there are a limited number of clearly-defined, quantifiable cross-sector metrics for the capitals.

There are further concerns that forward looking statements about medium or long term value creation will have legal and competition constraining the report content, to the extent that the report will add little new insight over existing public reports.

Re 3.5: the term "boilerplate'' disclosures should be clarified, particularly when statements be appropriately "boilerplate" from a legal perspective in relation to forward-looking or "hostage to fortune" disclosures.

Re 3B, Connectivity of Information: there is a very large number of interdependencies within an organization. It is a complex process to identify and communicate all of them. More guidance is required to explain the limitations of this approach in terms of covering all interdependencies relevant to all stakeholders and demonstrate how to report on this complexity while providing comparable reporting.

Re 3.8: it is not clear what kind of “established silos’’ are a concern – examples would be helpful.

Re: 3F, Consistency & Comparability: this section appears to rely on traditional KPIs, benchmarked or normalized using standard practices of existing public reports. There could be more clarity on what purpose the KPIs are intended to serve within the framework of an <IR>, and more clarity on where and when comparability is important. There is a danger that restated KPIs from other public reports will create a sense of repetition and redundancy in a stand-alone <IR>.

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).*

While there is an expectation of conciseness, the detail required to adequately address 4.5, 4.11, and 4.28/4.31 could be extensive, even taking into account application of the materiality principle.

4.11 bullet point 2: it is not clear what is expected in terms of “Specific processes” particularly as information related to culture and attitude to risk could be commercially sensitive.

4.11 bullet point 3: the request for “particular actions” on governance related to strategy and risk management seems more detailed than other disclosures, and could instead more generally describe how governance is organized to address material matters.

Re 4.15 bullet point 2: likelihood and magnitude are simply the dimensions of risk, which companies already report. Companies should not be expected to divulge more detailed data on risks which could be misleading when taken out of context or could be commercially sensitive.

Re 4.18: principles based requirement as presented - “An integrated report should answer the question: Where does the organization want to go and how does it intend to get there?” - appears a rather vague, broad and open ended question about the whole report, rather than clarifying the link between strategic objectives and resource allocation.

Re 4.19 and 4.20: it is not clear what is expected to be included in descriptions of “resource allocation”, or indeed how resources differ from the capitals.

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?*

In general, most companies choose to provide oversight or strategic direction through the report’s introduction or letter from the Board or Chief Executive Officer. It is not felt necessary to change this accepted practice to a reporting requirement that may introduce an unnecessary barrier for new reporters or those with different governance structures. It is also potentially problematic when taking into account differences between international companies in terms of formal responsibilities in relation to reported information, for example statements may need to be separately defined that relate to the governance role of the Board versus the management responsibility of the CEO.

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

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?*

Disclosed information already contained in other company public reports may be subject to assurance review already. The level of assurance should be determined by the company issuing the report insofar as it establishes credibility of data and/or processes. Mandatory data assurance would probably be duplicative for existing reporters, would be cumbersome for emerging reporters, and would serve as a barrier to entry for new reporters.

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.*

No further comments.

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 reporting boundary described is based on financial reporting, but overall the definition is rather vague and could lead to a diversity of approaches and more extensive reporting than intended. It is also important to note that a financial basis may not always be the most appropriate boundary for all KPIs and other determinants of performance or measured impacts on value. A company may have legal or contractual responsibility for 100% of non-financial risks associated with a subsidiary, where the equity share of value creation could be much less that 50%.

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?*

There are genuine concerns that a stand-alone report cannot be produced that will concisely meet all of the principles based requirements in this framework. Such a report will have inevitably have issues of overlap, completeness and duplication with respect to existing public reports. In addition, there are further concerns that forward looking statements about medium or long term value creation will have legal and competitive barriers, to the extent that the report will add little new insight over existing public reports.

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. Explain and demonstrate what is meant by a "concise" report for a large international corporation with various business activities. The requirements and Content Elements suggest an <IR> could be 100 pages or more. A mock-up of an <IR>would have been helpful at this consultation stage. The examples on the IIRC database are not altogether helpful and most instead demonstrate how to integrate existing annual and sustainability reports using GRI, statutory Annual Report and Accounts and other frameworks (e.g. King code III in South Africa), rather than produce the additional standalone <IR> described in this framework. By evidence of their own examples, the IIRC shows there is value in this work being focused on improving the balance and level of information in the existing annual report process – rather than creating a new standalone process.

2. The level of importance of a particular issue or matter to a company's stakeholders is an important input in the determination of materiality. The approach companies take to understanding and responding to stakeholders could be given more emphasis and explanation in the framework. This is particularly important when understanding value creation in the broadest sense.

3. Connectivity of Information - there are an infinite number of interdependencies within an organization. It is a complex process to identify and communicate all of them. Expectations need to take into account the limitations of this approach in terms of covering all interdependencies relevant to all stakeholders, the complexity this results in in terms of comparability, and the risk of the focus on interdependencies reducing focus on value creation.

Other

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

Rather than aim for another separate report, we believe that the IIRC process should aim to improve, and help integrate, existing public reporting frameworks which already cover the same ground as the six capitals. While it is not easy to persuade others to change existing reporting frameworks, IIRC could avoid increasing the reporting burden by focusing on shortfalls identified by its stakeholders, including those representing providers of capital.