

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:

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.

BT Group plc ("BT") is one of the world's leading communications service companies, serving the needs of customers in the UK and in more than 170 countries worldwide. The shares of BT are listed on the London and New York Stock Exchanges and BT is a FTSE 100 company.

We welcome the opportunity to comment on the IIRC's Consultation Draft of the International Integrated Reporting Framework, issued in April 2013. We have followed the development of the proposals for integrated reporting and we think that the publication of this consultation draft is an important next step. The framework, together with the examples database, should enable an increasing number of companies to understand and consider the relevance of the principles of integrated reporting for their business.

We support the concepts set out by the IIRC. We support the move towards simpler, concise reporting. In particular, we welcome the principles-based approach set out by the framework. It is not overly prescriptive and this encourages management to think through a company's particular business and circumstances in applying the framework.

We do however have concerns that these proposals, absent any reduction in regulatory requirements, could add to the current reporting burden rather than reducing it.

We have read the consultation draft and discussed it within our business, as well as participating in a number of discussion forums with representatives of other companies, academics and consultants outside BT. This response reflects views collated from colleagues within the areas of external reporting, investor relations, our Better Future (sustainability) team and shareholder services.

If you have any questions regarding any aspect of our response, please contact:

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Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

The majority of the principles outlined in bold seem comprehensive, simple to grasp and provide a good framework for reporting.

Concerns that we have relate to:

a) Paragraph 1.6 - the audience for an integrated report. We continue to challenge whether the 'providers of financial capital' should be the sole users of an integrated report. We recognise that the principle here indicates that an integrated report should be 'primarily' prepared for this audience, but it is not clear how the IIRC hope that this principle should be applied in practice. Through introducing the term 'primarily' do you accept that some report preparers may consider an integrated report to be for a wider stakeholder group, hence perhaps more akin to the evolution of a sustainability report and not an annual report? How will the question of liability to shareholders be managed? Is the IIRC hoping for an additional report, or a gradual replacement of others?

b) Paragraph 3.4.8 - we acknowledge that in an ideal world, reporting should enable comparison between different organisations, at least within the same sector. However, some of the principles of the framework (including the concepts of certain non-financial capitals and how these should be measured) are fairly new. We feel that understanding the trend within a company (through that company applying a consistent measurement and reporting approach) may be a more practical goal in the initial years of integrated reporting than seeking comparability between different organisations, even those within the same sector.

c) Paragraph 4.4 - requiring companies to prepare a stand-alone integrated report arguably adds another report to the existing suite of reports. We are concerned that this requirement to prepare a stand-alone integrated report could be a barrier to participation, as well as an increased cost. It may be an initial step along the journey, but ultimately the principles should be to develop an integrated approach to reporting, not to add a further report that might risk being treated as a summary or edited version of the wider suite. We feel that the IIRC should continue to emphasise that the

evolution of the process of integrated thinking and integrated reporting should be applied to all significant corporate communications.

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?*

We do agree that the IR process may be applied to all relevant reports and communications.

However, we do not agree that an integrated report has to be a separate, stand-alone report as it is implied here that this would be in addition to what already exists or what is already required. Organisations will continue to prepare such reports as are required for compliance purposes. There is a risk that an integrated report, as currently proposed, may simply add another layer to corporate reporting.

We welcome the principles set out in paragraphs 1.19, namely that the IIRC aims to complement material that has already been developed, rather than set out duplicate content. However, it would be helpful to clarify the nature of the relationship between the IR framework, financial statements and management commentary and other codes such as the King Code of South Africa or Grenelle 2 in France.

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?*

The IIRC will be aware of such sources. This is clear from our interaction with the IIRC over the years and given the organisations that have been involved in the project, including the Climate Disclosure Standards Board and the Global Reporting Initiative. Through its members, contacts or pilot programme participants, the IIRC needs to keep in touch with the findings of academic research and pilot cases in newer areas, such as measurement of end-to-end supply chain impacts, or social impact measurement, to be able to update such an authoritative source.

Other

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

No further comments.

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?*

This concept is quite hard to grasp and quite theoretical. In our view, certain capitals will overlap. Practical examples in this case (ie how the capitals have been articulated by certain companies) will help. We agree with paragraph 2.18, ie that not all capitals will be equally relevant or applicable to all organisations and that some may be immaterial and consider it very helpful to have set this out clearly.

However, we do not think it necessary for companies to explain why certain capitals are not material; this would be inconsistent with the typical approach to 'material matters' in financial reporting frameworks and would increase 'clutter'.

We feel that the terminology and language used may not be immediately understandable to people. In practical terms, if the management of an organisation consider their own strategy and business model, it is likely that they will find this encompasses the material capitals, but not necessarily described or defined in the way set out in this section. Having an 'owner' for each capital within an organisation may be a helpful way to shift management's thinking.

We found the graphic set out on page 11 of the framework to be a helpful visual setting out the fundamental concepts.

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

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?*

Yes we do agree with this definition.

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?*

We do agree with this definition and with the principles that this seeks to reflect.

Measuring outcomes as described is complex and will take time to evolve. Standard methodologies do not exist.

This is an area where in particular, we think that setting out links within the final

framework to examples of good practice or emerging thinking would be helpful, to show how this has been applied in practice by organisations.

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)?*

No further comments

Other

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

No further comments.

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?*

One challenge we see here ties into our response to question 1. The definition in paragraph 3.23 refers to the 'primary' intended report users. On the face of it this excludes the wider stakeholder community to whom the information within an integrated report may be relevant. We acknowledge that this appears to be the intention of the framework, in setting itself up to treat the providers of financial capital as the primary users of an integrated report.

Even if this concept of 'providers of financial capital' as being the primary users of the report is accepted, the application of the concept of materiality is difficult given this should reflect both financial and non-financial information, which may or may not be quantifiable. Also, providers of financial capital are likely to appreciate the value of non-financial performance only where it can be reflected in financial terms. We very much support the need to link financial and non-financial measures to enable a dialogue on wider performance. But although methodologies are evolving, it remains quite controversial to apply a robust and meaningful 'dollar value' to many non-financial measures.

It may be helpful to consider further some of the concepts from the AA1000 AS standard, or advise preparers to consider these, which reflect the need to report on those matters that have been identified as relevant to the organisation and its stakeholders. In such a case, materiality is not necessarily quantified.

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

No further comments.

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?

A report should describe:

- how the organisation has assessed what should be included
- how the organisation has undertaken measurement of trends or quantified performance in both financial and non-financial areas (ie a basis of reporting, or measurement methodology/policy)
- the extent of any internal or external verification or assurance over the data included
- how management has assessed that the report provides a balanced view.

We would expect an integrated report to include a statement by the directors as to their responsibility for the content (which might include how they have assessed whether information is sufficiently reliable to be included). It is possible that, where further work needs to be undertaken to be comfortable with this, directors could make this clear.

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

No further comments.

Other

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

No further comments.

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).

Section 4G indicates a far wider 'future outlook' orientation within the report than may be currently expected from regulatory reports or within financial statements that are subject to independent audit. Together with the forward looking performance information that is sought in paragraph 4.31, this may represent a step change in certain jurisdictions as to the level of forecast or target information that is typically included in a published report. The interaction between this and the regulatory environment within which an organisation operates and reports may be hard to resolve.

'Safe harbour' provisions for directors should be considered. The audit implications will need to be considered further given this commentary will be based on management's assessment, assumptions and forecasts (see also our response to question 19).

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?*

We do feel that those charged with governance should take responsibility for the integrated report. We consider it appropriate because this body need to be satisfied that the report can be published externally.

However, any requirement for those charged with governance to provide such a statement should be consistent with requirements or restrictions within the relevant jurisdiction (s) within which a company operates.

Furthermore, some of the measurement criteria and indeed the framework itself are evolving. Directors may feel that there is not yet a sufficiently clear methodology against which they would be able to state they are satisfied that they have discharged their responsibilities.

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?*

This is an area that will need to evolve. Assurance can only be obtained where there is a clear methodology, with clear criteria for measurement or reporting against which to test assertions.

Financial statements auditing standards cover broad areas, and the framework for measurement (eg IFRS) is well established and extensive.

Given the nature of integrated reporting, our view is that the aspiration or long-term goal for assurance, would be to seek assurance over the integrated report as a whole. However, we do not think that this should be a prescriptive requirement.

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).

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?

We welcome the recognition that integrated reporting will evolve over time. We believe that certain organisations already are beginning to apply many of the principles in their drive to reflect a 'fair, balanced and understandable' view of the business in their annual report. Many organisations in the UK have been focused on better articulating their business model. Reporting is evolving and the overall 'direction of travel' is consistent with the movement towards integrated reporting.

Please also see our initial covering letter comments.

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. To explain the link between integrated reporting and existing reporting mechanisms or regulatory requirements
2. To explain how six capitals could be defined within different organisations.

Other

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

No further comments.