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: Yvette Lokker, President & CEO, Canadian Investor Relations Institute (CIRI) and Elaine Wyatt, Co-chair CIRI Issues Committee
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Stakeholder group: Professional bodies – Other

If replying on behalf of an Organization please complete the following:
Organization name: Canadian Investor Relations Institute (CIRI)
Industry sector: Not applicable
Geographical region: North America

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.

CIRI is pleased to provide its comments to the IIRC on the <IR> Framework. CIRI is a professional, not-for-profit association of executives responsible for communication between public corporations, investors and the financial community. CIRI contributes to the transparency and integrity of the Canadian capital markets by advancing the practice of investor relations, the professional competency of its members and the stature of the profession.

The practice of investor relations involves identifying, as accurately and completely as possible, current shareholders as well as potential investors and key stakeholders and providing them with publicly available information that facilitates knowledgeable investment decisions. The foundation of effective investor relations is built on the highest degree of transparency in order to enable reporting issuers to achieve prices in the marketplace that accurately and fully reflect the fundamental value of their securities.

CIRI chapters are located across Canada in Ontario, Quebec, Alberta and British Columbia. Membership consists of approximately 600 professionals serving as corporate investor relations officers for reporting issuers, consultants to issuers, or service providers to the investor relations profession. CIRI is also a member of the Global Investor Relations Network (GIRN), which provides an international perspective on the issues and concerns of investors and shareholders in capital markets outside of North America.

Many of the concepts, principles and content proposed by the Framework are built into the existing disclosure infrastructure in Canada. Therefore, in addition to the questions posed by the IIRC, our subcommittee of six members, which included CIRI's Chief Executive Officer, asked a critical question: Would the IIRC <IR> Framework deliver better disclosure than the regulations and guidelines followed by many Canadian companies today? While we feel that disclosure requirements for Canadian issuers are already comprehensive, we identified aspects of the Framework that we believe would improve disclosure:

1) The concept of integrated thinking and the links – or connectivity – between traditional financial and operating performance and environment, social and governance (ESG) initiatives. We believe this would encourage more serious contemplation of sustainability as presenting potential opportunities as well as a risk and could have a materially significant impact on financial performance.
2) The concept of six capitals, which would encourage companies to acknowledge and account for the value of assets that are not usually captured in the financial statements. However, we have expressed our concerns about the application of this concept in our answers to questions #5 and #6;
3) The focus on value creation, subject to reservations discussed below in our answer to question #5; and
4) The recognition that companies should address three time horizons: the short, medium and long term.

However, there are aspects of the Framework that we find problematic:

1) The IIRC does not adequately acknowledge the fundamental shift in corporate culture and the significant investment in systems and processes required to enable integrated management that must take place before this end product – the integrated report – can be produced. This is particularly concerning in the Canadian capital market, which has a high concentration of small market capitalization companies with limited resources – human and financial. We recognize that the IIRC's mandate is reporting, but success will be elusive without more effort to provide some guidance on implementing integrated thinking and many of its inherent processes, such as developing a materiality matrix.
2) The Framework states that the integrated report is not meant to replace existing disclosure and reporters are encouraged to continue producing their traditional reports. We do not believe our members will expend the resources or time required to produce yet another disclosure document, particularly one not required by law. Nor do we think a summary of existing disclosure would be of interest to providers of capital; they prefer to go to the original, more detailed sources.
3) The Framework also calls for a concise communication. We do not believe it is possible to produce a document that is concise and contains all of the content proposed in the Framework. Many of the proposed content elements do not change significantly from year to year, such as legislative and regulatory environments, and would be better posted on a website while the report focuses on performance, changes and the future.

4) We agree that the primary audience for an integrated report should be providers of financial capital, but we do not agree that the assessments of stakeholders should determine strategy or allocation of capital. Companies must be aware of stakeholder expectations, but developing strategy and allocating capital is the legal responsibility of management with oversight by the board.
5) The same challenge exists in section 3C with the suggestion that an integrated report should "provide insight into the quality of the organization's relationships with its key stakeholders." Companies could discuss initiatives to engage with stakeholders and the outcome of those engagements, but how could a company discuss the quality of the relationship?
6) The components of the Framework – the fundamental concepts, guiding principles, content elements and preparation and presentation – are not well integrated. For example, the concept of various capitals as inputs and outputs is a key differentiator of this disclosure framework, yet capitals are not mentioned in the discussion of content elements.
7) The Framework frequently refers to the collaboration of senior management and those charged with governance (1.13, 3.11, 3.20, 3.23, 3.24, 3.32, 4.3, 4.34), which reflects the European corporate model rather than the North American model of those responsible for governance providing oversight rather than collaborating in the process.

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 six principles of the Framework are similar to the guiding principles inherent in Canadian regulations and the guidelines of the Chartered Professional Accountants of Canada (CPA Canada). We have commented on individual principles in our answers to questions 11 to 15.

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?*

   Although the IIRC claims that it does not intend to develop duplicate content, if the <IR> process is applied consistently to all existing relevant reports and communications, why would a company need a standalone integrated report? The entire report would inherently be duplicative.

The proposed interaction with other reports and communications is not consistent throughout the Framework. For example, the Framework states that the integrated report can simply link to other documents for detailed information (1.18), but then it explicitly states that the report will include a lengthy list of Content Elements (4.2). For example, paragraph 4.12 states that an integrated report will focus on "significant compensation policies and practices (including cash, deferred compensation, post-retirement benefits and stock arrangements). This may involve both quantitative and qualitative information about the oversight arrangements for remuneration of those charged with governance and senior executives and how the links between the organization's strategy and its use of and affects on capitals are used to arrive at performance based compensation, including future remuneration and fixed and variable components." This information is required by Canadian and U.S. securities law in the Compensation Discussion and Analysis (CD&A) in the proxy circular. It is not clear whether the integrated report should point to that document or repeat all the information, despite statements that the integrated report will avoid redundant information (3.29).

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 CPA produces an excellent guide called Management's Discussion and Analysis: Guidance on Preparation and Disclosure in addition to guidance on discussing topics such as risk and governance. In fact, the content proposed by the CPA Canada document maps very closely to that proposed in the IIRC Framework.

Other

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

No 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?*

The inclusion of a broader set of capitals recognizes assets and resources available to or produced by a company but not reflected in the financial statements. However, the concept does not align with the way companies are managed, which would make it an improbable approach to reporting. Perhaps the IIRC has already recognized this conundrum since it does not mention “capitals” as content elements or explain how a company might report on capitals despite the schematic on pages 10 and 11. We need more clarity about what the IIRC wants companies to do with the capitals concept.

We also find the term “capitals” very foreign; essentially the IIRC is talking about resources and relationships, words that would have more intuitive meaning to reporters in Canada.

There is an inherent disconnect between the inclusion of capitals that the IIRC admits cannot be valued and the focus on value creation. Specifically, Figures 2 and 3 in the Framework explicitly state that the value creation process involves inputs (incoming capitals) and outcomes (outgoing capitals), yet there is no guidance for establishing a value for all of those capitals, which are in turn defined as stores of value in paragraph 2.37, or for measuring the incremental increase, which the concept of value creation implies. In fact, the IIRC admits that some of the capitals cannot be quantified and must be reported through narrative, but this would be of little interest to providers of capital unless specifically linked – in a quantifiable way – to improved financial performance. The IIRC does not intend to establish performance standards, but some guidance – at least examples of best practice – would be useful.

We are also uncomfortable including capitals that the company does not own or control, such as public roads, ports, bridges or waste and water treatment plants. These are often treated as expenses through payment of taxes, tolls or fees or impacts, but would be difficult to contemplate as a company’s capital. At the very least, there should be a distinction between those capitals owned and/or controlled by the company and those that the company does not own and/or control.

Finally, in paragraph 2.19 the IIRC does not require that the capitals identified in the Framework be adopted by all organizations, rather they are described as part of the theory underpinning the concept of value. However, if a company does not consider any of the capitals identified in the Framework to be material, it must explain why (4.5). To make it more complicated, a “stock of value” (2.20) could be placed within different capitals by different companies or spread across a number of capitals. This is not only confusing, it complicates comparability.

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

We do not understand why the IIRC believes integrated reporting will “encourage the allocation of financial capital to reward and support long term value creation” (paragraph 2.39). The impact of following short-term strategies on long-term performance of a company is already well known by business managers and investors. This is not a new concept and integrated reporting is not likely to change the investment strategy of any one seeking a quick return, even if it compromises long term performance.

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?

We perceive two critical problems with the IIRC's definition of a business model:

1) The Framework distinguishes between the business model and the strategy. We believe the business model must be discussed within the context of the strategy. Essentially, the business model is designed to implement the strategy.
2) We do not agree that the key features and findings of stakeholder consultations should be used to formulate strategy and resource allocation (4.20 and 4.28). Stakeholder perceptions should be considered, but developing strategy and allocating resources is the legal obligation of management with oversight by the board of directors.

Business model (Section 2C) continued

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 not disagree with the definition of outcomes, but are confused by the existence of both outputs (2.34) and outcomes (2.35-2.36). We're not convinced it's necessary, but might be convinced with a better explanation. We also question whether outcomes are part of the business model or the result of the business model.

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)?

We are confused by the suggestion that a company explain the material effect of regulations on its performance and how non-compliance with the laws or regulations could affect operations (4.30). We assume companies will be in compliance with all laws and regulations; considering how a company might perform if such constraints did not exist seems inappropriate and irrelevant. Documenting the penalties for not complying is irrelevant to a company in compliance and inevitably boilerplate.

We question whether it is really necessary to advise companies to ensure that their expectations, aspirations and intentions are grounded in reality (4.35). This is covered under several of the guiding principles, particularly those related to materiality, connectivity and reliability.

Other

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

The Framework does not acknowledge differences in regional legislation or regulations related to accounting, reporting, corporate governance or stock exchange listing. Creating a standard that will allow global comparability may be the goal, but the reality is that Canadian companies will focus resources on required disclosure.

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?*

Canadian companies must comply with the definition of materiality established by regulators. It is impractical to have different definitions in different reports. Using a word such as “priorities” instead of “materiality” (which is imbued with years of regulatory implications) may make the <IR> concept less difficult for companies to adopt.

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

No 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?*

While we do not disagree with the concept of stakeholder engagement, we do not see the relationship between stakeholder engagement and reliability and completeness. Engaging with stakeholders can help to ensure that a company is addressing their concerns, but external stakeholders cannot know what they don't know. If a company deliberately withholds information about events or circumstances that it does not want to disclose, engagement with stakeholders will not reveal that information.

We do not see the need for an integrated report to be assured, for two reasons. First, assuring a report is a decision based on the cost and benefit; it would be appropriate only if stakeholders deemed it desirable and/or it reduced the cost of capital. Neither appears to be the case at this time, especially if the company is known to have solid governance and controls. Second, much of the content proposed in the Framework is too vague to be assured. Information that can be assured likely will have already been assured in the original disclosure.

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

Paragraph 3.41 makes an important point about the quantity and quality of information needed for management to make good decisions, but falls short by not indicating that good management is often defined by the ability to make good decisions despite imperfect information. It is unrealistic to assume that organizations always have the ability and time to gather perfect information prior to making important decisions. As well, the cost of implementing systems to obtain the information must be exceeded by the value of the enhanced reliability of the information to the decision-making process.

Other

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

No 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).*

While we agree with the principle that disclosure should have a future orientation (4.19 and 4.28), we would like to emphasize that there are a host of securities regulations with which Canadian companies must comply when making forward-looking statements. These regulations demand that the company have the systems and processes to ensure the statements are reliable and to track performance. For this and other reasons, there is a wide diversity of opinions about providing forward-looking information across corporate Canada.

We have some concerns with the proposed reporting on the external environment:

1. We do not think companies will or should discuss the strengths and weaknesses of competitors (4.9);
2. Providing a meaningful discussion of the legal, regulatory, commercial, social, environmental and political context (4.9) would generate a substantial volume of boilerplate information for most companies. Instead, we believe they should focus on changes or trends that have a material effect on performance.

We do not agree that the key features and findings of stakeholder consultations should be used to formulate strategy and resource allocation (4.20 and 4.28). While the concerns of stakeholders should be known and considered, this is the responsibility of management with oversight by the board.

We do not understand why those charged with governance should be responsible for promoting and enabling innovation. This is a strategic decision that should be the responsibility of management with oversight by governance (i.e. the board).

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?*

Under Canadian regulations the Board of Directors is charged with governance over a company's leadership, strategy and performance. Boards are not involved in the management of annual reports, nor would they be involved with an integrated report. Further, the CEO and CFO of a company are responsible for certifying disclosure in the annual report – not the Board, a requirement that would apply to an integrated report if it replaced the annual.

If the integrated report is a summary of information from other disclosures, much of that information will be covered by the existing process for certification. This certification can be referenced in the integrated report rather than repeated.

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

Developing an opinion regarding the report's compliance with the IIRC framework is not only premature; it would be a substantial burden. Qualifying the extent of compliance would also be problematic unless the IIRC creates a methodology similar to that employed by the Global Reporting Initiative.

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?*

We feel discussion of assurance is premature given the nascent condition of the Framework and the vagueness of the criteria within this consultation draft.

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 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 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?

As we have pointed out, there are aspects of the Framework that mirror existing regulations and guidelines in the Canadian capital market, such as many of the content elements. We believe some of these would be appropriate for organizations in other jurisdictions of the world.

The challenge is creating a framework that can be consistently applied without duplicating other disclosures. This consultation Framework needs refinement. Aside from the comments already made, it is repetitive and unnecessarily complicated, making it difficult to understand. Any guidelines developed for issuing companies in Canada should be written in plain language without repetition or contradictions.

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?

Each person in our six-member subcommittee selected three topics that they would recommend be given priority: high priority topics (with number of mentions) were: further refinement and clarification of materiality, despite the background paper on materiality that has already been published (6), the process of establishing integrated thinking and creating an integrated report (2), establishing reliability and credibility (2), valuing the capitals (2). Other topics mentioned were avoiding redundancy, governance and business model. Several members requested an example of a good integrated report.

Other

24. 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 comments.