

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.

The Global Reporting Initiative (GRI) congratulates the IIRC for offering for public comment the first proposal for an Integrated Reporting framework, and values the opportunity to comment on the consultation draft. In responding to the consultation draft, GRI seeks to provide the perspective of the provider of the most widely-used sustainability reporting framework globally.

This submission represents the views of the GRI Secretariat, and also reflects the main points for clarification identified by GRI's network in various forums in the last year.

GRI hopes that this feedback will provide valuable input for the finalization of the <IR> Framework (IRF). Please do not hesitate to contact us should you have any questions or wish to discuss any of the issues raised in this submission.

General Observations

GRI would like to share the following high-level observations about the consultation draft.

1. IIRC framework-based reports as a 'summary'

The consultation draft states that a report prepared based on the <IR> framework (IRF) is a 'stand-alone' report, with details or indicators to be found in other reports such as financial statements and sustainability reports (paragraphs 1.18, 1.19, 1.20 in the consultation draft).

Considering this, GRI recommends:

a. The text positions an <IR> report as an extra report, potentially as a strategic summary. As such its value, scope and remit has to be discussed and precisely defined by reporters and the main report audience (providers of financial capital, as mentioned in 1.7). Otherwise, the preparation of an IRF-based <IR> report will represent an unjustified extra burden for reporters, and might be difficult to combine with the current reporting needs and with new regulations on reporting in several countries around the world.

b. In this respect, it is particularly important to describe what a 'concise communication' is (as mentioned, e.g., on page 6 – Content Elements)

c. Some explanation should also be offered on how this <IR> concept aligns with, or relates to, the 'one report' concept: For instance, if considering its future evolution an IRF-based report is intended to become a comprehensive corporate report (One Report) that integrates all material information and will replace – perhaps over time – other types of reports and disclosure frameworks. On this point GRI has noticed that even reporting entities that are familiar with the IRF consultation draft are not entirely clear on this question.

2. Relation between the IRF, other frameworks, and other reporting requirements

The consultation draft states that <IR> should offer insights about the elements of reporting organizations which are summarized in 2.2 and further presented in section 4.

Considering this, GRI recommends:

a. Many of these content elements ('Strategy and resource allocation', 'Opportunities and risks', 'Organization overview and external environment', 'Governance', 'Performance') suggested in the IRF are already covered by other types of reports and disclosure frameworks (i.e., financial and sustainability) and regional legislation.

As part of the IRF, GRI recommends to develop explanatory narrative on the linkages between these content elements and the disclosures from other established frameworks, to avoid duplication and lack of conceptual harmonization.

b. The same recommendation would apply to Section 3 (The Guiding Principles) 3C, 3D, 3E and 3F, related to existing and in-use reporting principles ('Stakeholder responsiveness', 'Materiality and conciseness', 'Reliability and completeness', 'Consistency and comparability').

Here it is also recommended to develop explanatory narrative as part of the IRF, on the linkages between these Principles and those from other established frameworks, to avoid duplication and lack of conceptual harmonization.

3. Relation between <IR> and Sustainability Reporting

On the IIRC website there are two statements about IIRC and <IR>:

THE NEED FOR <IR>

At the heart of <IR> is the growing realization that a wide range of factors determine the value of an organization – some of these are financial or tangible in nature and are easy to account for in financial statements (e.g. property, cash), while many are not (e.g. people, natural resources, intellectual capital, market and regulatory context, competition, energy security). <IR> reflects the broad and longer-term consequences of the decisions organizations make, based on a wide range of factors, in order to create and sustain value. <IR> enables an organization to communicate in a clear, articulate way how it is drawing on all the resources and relationships it utilises to create and preserve value in the short, medium and long term, helping investors to manage risks and allocate resources most efficiently.

THE CURRENT CORPORATE REPORTING FRAMEWORK

The current corporate reporting framework needs to evolve to reflect the wide range of factors that affect corporate performance. The current focus on an organization's financial statements is insufficient to answer the question: what is the value of the organization? Financial reporting covers both financial performance and risk, and this will remain an important part of the reporting universe; it is, however, insufficient by itself to provide all the information that users now need for rational and high quality decision-making. In a scenario where the majority of the information available to investors is historic, they are required to navigate a course around the next corner with reference only to a rear view mirror as if there were no road ahead. <IR> is the route map that supports investment decision-making, reflective of the integrated thinking and decision-making within organizations.

"In these statements (and many others on its website), the IIRC refers to areas covered by GRI sustainability reporting framework and other sustainability disclosure standards – e.g., non-financial factors that influence value creation – and the fact that financial statements are insufficient to express the entire value creation, or destruction, of an organization. These two elements were the foundation on which GRI's Sustainability Reporting Framework, and other sustainability disclosure standards, were developed in the last 10 years. These standards have become part of the 'corporate reporting universe' and today thousands of companies rely on them to prepare non-financial disclosures in various formats.

But the statements on the IIRC website do not clarify the relationship between the IRF, sustainability, sustainable triple bottom line development, and sustainability reporting frameworks.

'Sustainability Reporting' is also mentioned in paragraphs 1.18, 1.19, 1.20 in the consultation draft but, again the draft do not clarify the relationship between the IRF, sustainability, sustainable triple bottom line development and sustainability reporting frameworks.

Considering this, GRI recommends:

- a. The IRF includes a section containing explanations of how it relates to the concept of sustainability and sustainability reporting/sustainability disclosure standards.
- b. The IRF makes explicit the necessity of having sustainability reporting processes in place to develop an IRF-based report.
- c. The IRF provides a narrative on the relation of <IR> and sustainability reporting processes, including related synergies and benefits, as part of paragraphs 1.18-1.20.
- d. The IRF clarifies the relationship – now and in the future – of the IRF with financial and sustainability reporting.

4. On the link between 'materiality' and the <IR> content elements

The application of the 'Materiality and conciseness' Principle (3D) is not clearly linked to the report elements in 2.2 and Section 4 (Report Elements).

More explanation is needed on how the proposed 'materiality' analysis is expected to be used when defining specific parts of the content for the report elements 4A ('Organizational overview and external environment'), 4B ('Governance'), 4C ('Opportunities and risks'), 4D ('Strategy and resource allocation'), 4E ('Business model'), 4F ('Performance') and 4G ('Future outlook').

5. Audience for <IR>

Paragraphs 1.6, 1.7 and 1.8 explain the <IR> audience.

The focus on providers of financial capital as the primary audience should be articulated more clearly in the various sections, if this remains the IIRC's focus.

Considering this, GRI recommends:

a. In combination with the focus on providers of financial capital as the primary audience, the consultation draft also includes references in prominent places to wider sets of stakeholders (i.e., paragraphs 1.7, 3.13-3.21). As a result it remains unclear how the focus on providers of financial capital as primary audience and the interests of wider sets of stakeholders are intended to be combined when preparing the different parts of <IR>. A narrative on whether and how the interests of a wider set of stakeholders relate to the interests of the primary audience – the providers of financial capital – is missing.

b. Furthermore, the description of the 'Materiality and conciseness' Principle (3D) does not mention the focus on financial capital providers when assessing materiality. This is a critical matter to be clarified for those using the IRF: if the proposed main audience is financial capital providers and the materiality analysis should be focused on their interests. In this context, the application of the 'Stakeholder responsiveness' Principle (3.13 -3.21), as proposed in conjunction with the 'Materiality and conciseness' Principle, also warrants further explanation.

c. The IIRC might reconsider whether this focus is advisable and tenable in the long term. GRI would propose the following questions to assess this:

o Will companies opt to have a report specifically for providers of capital, or would companies see more purpose in integrating their reporting for a wider audience?

o If integrated thinking is the goal for the company, why would integration not account for the providers of human, social and natural capital, whose interests would be integral to a well-functioning, sustainable market economy?

6. Value

The concept of 'value' remains unclear in the consultation draft, but is proposed as a fundamental concept that must be used. This leaves the interpretation of the concept of 'value' in the IRF draft to the reader.

Considering this, GRI recommends:

a. Given the many established theories and interpretations around the concept of 'value', mainly in the context of economics, philosophy, psychology and sociology, the IRF should specify on which theory or theories, if any, it bases its concept of value creation, and provide references to external sources to help users of the IRF better understand

the concept of value and the related concepts of value creation and capitals.

b. GRI recommends that a chosen definition for this term is offered as part of the IRF.

E.g., in various paragraphs it is currently possible to apply a number of definitions of 'value': exchange value, user value, financial value. Depending on the concept choice the resulting reports would be quite different.

c. The difference between the terms 'value', 'value creation' and 'capital' should also be further clarified. These terms are not distinguished sufficiently in the consultation draft.

7. Future of reporting

There is an expectation that the IIRC and IRF contribute to building a vision for the future of corporate reporting, particularly considering the coalition of players around these developments.

Related to many of GRI's general comments on the consultation draft, a number of questions are still unclear: What is the IIRC's vision of the future – One Report or stand-alone Integrated Reporting? What is the envisaged relationship with other standards? How does this relate to the stated IIRC objective to reduce the reporting burden?

GRI recommends that statements on how the corporate reporting field is expected to evolve in the coming years, and whether reporters should choose one type of reporting over the other, are added to the section on 'Interaction with other reports and communications' (paragraphs 1.18 – 1.20).

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 most critical missing elements and proposals for change are explained in the text with GRI's general comments ('Key Points') on the IRF consultation draft. Please consult that text for detailed comments.

The text covers the following topics:

1. IIRC framework-based reports as a 'summary'
2. Relation between the IRF, other frameworks, and other reporting requirements
3. Relation between <IR> and Sustainability Reporting
4. On the link between 'materiality' and the <IR> content elements
5. Audience for <IR>
6. Value
7. Future of reporting

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?

GRI proposes that this section be extended, as detailed in the general comments text. The main recommendations to these paragraphs are also listed below.

"The consultation draft states that a report prepared based on the <IR> framework (IRF) is a 'stand-alone' report, with details or indicators to be found in other reports such as financial statements and sustainability reports (paragraphs 1.18, 1.19, 1.20 in the consultation draft).

Considering this, GRI recommends:

a. The text positions an <IR> report as an extra report, potentially as a strategic summary. As such its value, scope and remit has to be discussed and precisely defined by reporters and the main report audience (providers of financial capital, as mentioned in 1.7). Otherwise, the preparation of an IRF-based <IR> report will represent an unjustified extra burden for reporters, and might be difficult to combine with the current reporting needs and with new regulations on reporting in several countries around the world.

b. In this respect, it is particularly important to describe what a 'concise communication' is (as mentioned, e.g., on page 6 – Content Elements)

c. Some explanation should also be offered on how this <IR> concept aligns with, or relates to, the 'one report' concept: For instance, if considering its future evolution an IRF-based report is intended to become a comprehensive corporate report (One Report) that integrates all material information and will replace – perhaps over time – other types of reports and disclosure frameworks. On this point GRI has noticed that even reporting entities that are familiar with the IRF consultation draft are not entirely clear on this question.

d. The IRF includes a section containing explanations of how it relates to the concept of sustainability and sustainability reporting/sustainability disclosure standards.

e. The IRF makes explicit the necessity of having sustainability reporting processes in place to develop an IRF-based report.

f. The IRF provides a narrative on the relation of <IR> and sustainability reporting processes, including related synergies and benefits, as part of paragraphs 1.18-1.20.

g. The IRF clarifies the relationship – now and in the future – of the IRF with financial and sustainability reporting."

In summary, GRI believes it is of critical importance that established reporting standard setters are referenced to give the user of the IRF sufficient orientation on how <IR> relates to other connected reporting efforts.

The IRF should make explicit the necessity of having sustainability reporting processes in

place to develop an <IR> report.

The IRF should provide a narrative on the relation of <IR> and sustainability reporting processes, including related synergies and benefits, as part of the paragraphs 1.18-1.20.

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 Standard Disclosures included in the GRI G4 Sustainability Reporting Guidelines and GRI Sector Disclosures, and other globally-accepted topic-specific standards or references mentioned in the G4 Guidelines.

Other

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

GRI strongly recommends further development of paragraphs 1.6, 1.7 and 1.8, as mentioned in its general comments document.

GRI also strongly recommends further development of paragraphs 1.18, 1.19 and 1.20, as mentioned in its general comments document.

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?*

GRI agrees with the approach to the capitals, but considers as insufficient the guidance offered on how to link this approach to the 'value creation' concept, which is also not well defined. See details in GRI's general comments document. Particularly, the difference between the terms 'value', 'value creation' and 'capital' should also be further clarified. These terms are not distinguished sufficiently in the consultation draft.

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

None.

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?*

GRI agrees with 2.26.

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?*

GRI accepts the description in 2.35 and 2.36.

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)?*

GRI has comments and recommendation on the content elements in chapter 4E of the IRF consultation draft, but they are not related to the business model concept. See GRI general comments.

Other

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

GRI has made recommendations for further development of section 2D 'Value Creation' in its general comments document.

Mainly:

a. Given the many established theories and interpretations around the concept of 'value', mainly in the context of economics, philosophy, psychology and sociology, the IRF should specify on which theory or theories, if any, it bases its concept of value creation, and provide references to external sources to help users of the IRF better understand the concept of value and the related concepts of value creation and capitals.

b. GRI recommends that a chosen definition for this term is offered as part of the IRF.

E.g., in various paragraphs it is currently possible to apply a number of definitions of 'value': exchange value, user value, financial value. Depending on the concept choice the resulting report would be quite different.

c. The difference between the terms 'value', 'value creation' and 'capital' should also be further clarified. These terms are not distinguished sufficiently in the consultation draft.

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?*

a. GRI recommends that the sentence above is included in 3.23: "The primary intended report users are providers of financial capital" (from paragraphs 1.6-1.8). The description of the 'Materiality and conciseness' Principle (3D) does not mention the focus on financial capital providers when assessing materiality. This is a critical matter to be clarified for those using the IRF: if the proposed main audience is financial capital

providers and the materiality analysis should be focused on their interests. In this context, the application of the 'Stakeholder responsiveness' Principle (3.13 -3.21), as proposed in conjunction with the 'Materiality and conciseness' Principle, also warrants further explanation.

b. Explanatory materials should be developed that focus on the commonalities and differences of the materiality definitions in <IR>, financial, and sustainability reporting, to aid practitioners in using the principles.

c. Explanatory narrative should be developed as part of the IRF, on the linkages between this Principle and materiality principle from other established frameworks, to avoid duplication and lack of conceptual harmonization.

d. The application of the 'Materiality and conciseness' Principle (3D) is not clearly linked to the report elements in 2.2 and Section 4 (Report Elements). More explanation is needed on how the proposed 'materiality' analysis is expected to be used when defining specific parts of the content for the report elements 4A ('Organizational overview and external environment'), 4B ('Governance'), 4C ('Opportunities and risks'), 4D ('Strategy and resource allocation'), 4E ('Business model'), 4F ('Performance') and 4G ('Future outlook').

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

a. GRI recommends that the sentence above is included in 3.23: "The primary intended report users are providers of financial capital" (from paragraphs 1.6-1.8). The description of the 'Materiality and conciseness' Principle (3D) does not mention the focus on financial capital providers when assessing materiality. This is a critical matter to be clarified for those using the IRF: if the proposed main audience is financial capital providers and the materiality analysis should be focused on their interests. In this context, the application of the 'Stakeholder responsiveness' Principle (3.13 -3.21), as proposed in conjunction with the 'Materiality and conciseness' Principle, also warrants further explanation.

b. Explanatory materials should be developed that focus on the commonalities and differences of the materiality definitions in <IR>, financial, and sustainability reporting, to aid practitioners in using the principles.

c. Explanatory narrative should be developed as part of the IRF, on the linkages between this Principle and materiality principle from other established frameworks, to avoid duplication and lack of conceptual harmonization.

d. The application of the 'Materiality and conciseness' Principle (3D) is not clearly linked to the report elements in 2.2 and Section 4 (Report Elements). More explanation is needed on how the proposed 'materiality' analysis is expected to be used when defining specific parts of the content for the report elements 4A ('Organizational overview and external environment'), 4B ('Governance'), 4C ('Opportunities and risks'), 4D ('Strategy and resource allocation'), 4E ('Business model'), 4F ('Performance') and 4G ('Future outlook').

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?*

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

For Section 3 (The Guiding Principles) 3C, 3D, 3E and 3F, related to existing and in-use reporting principles ('Stakeholder responsiveness', 'Materiality and conciseness', 'Reliability and completeness', 'Consistency and comparability'), GRI recommends to develop explanatory narrative as part of the IRF, on the linkages between these Principles and those from other established frameworks, to avoid duplication and lack of conceptual harmonization.

Other

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

GRI has no comments related to the content of 3D, 3E and 3F. GRI remarks that the principles mentioned in the IRF consultation draft and are existing ones; the fact that this content already exists should be explicitly mentioned, and the relationships between the new IRF principles and existing principles used in other reports should be clearly explained.

As the IRF-based report will rely on details from other reports (paragraphs 1.18), this is a critical point from the reporter's perspective.

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).*

In its general comments document, GRI gives recommendations for improvements related to Section 4. They are mainly:

Many of the Content Elements in the IRF consultation draft ('Strategy and resource allocation', 'Opportunities and risks', 'Organization overview and external environment', 'Governance', 'Performance') are already covered by other types of reports and disclosure frameworks (i.e., financial and sustainability), and regional legislation.

It is recommended to develop explanatory narrative as part of the IRF on the linkages between these content elements and the disclosures from other established frameworks, to avoid duplication and lack of conceptual harmonization.

Furthermore, GRI recommends that the link between the materiality analysis and the report elements is clarified, and that the concept of 'value' is clarified – including clarification on its link to the concept of '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?*

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

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

GRI's experience shows that reporters are not always ready to expose all elements of non-financial reports to external assurance. From GRI's perspective, in order to promote external verification it is recommended that the IRF accepts both types.

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.*

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).*

GRI recommends that the IRF explains how the information presented in other reports/documents (which will provide detail on the IRF-based report), which might have been prepared considering other 'boundaries', should be presented as part of <IR>.

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?*

GRI observes that many companies and other players, to promote integrated thinking and also to reduce the reporting burden, are inclined to believe that the most adequate report format for future reporting is a 'one report' approach which would capture - in an integrated manner - the value creation and destruction of an organization.

Integrated thinking and reporting should then address the full spectrum of value (created or destroyed). Much of companies' value is nowadays made up of intangibles. Intangibles relate to trust, which is related closely to stakeholder confidence and the license to operate. These in turn affect the cost of capital and brand value.

Environmental and social issues are increasingly factors that affect stakeholders' trust. Sustainability is therefore a key component. A company's assessment of trust should therefore take account of stakeholders' views and their effect on trust, the license to operate, cost of capital and brand value and through this be aware of the extent to which sustainability issues are a factor to be considered.

In this context the definitions of 'value' and 'value creation' have to be accepted by the organization's stakeholders. The IRF should offer a clear perspective on value creation taking the importance of stakeholder views into account, and within this the reality that performance and impacts can lead to different value assessments by stakeholders (i.e. is their value perspective based on exchange value or user value?).

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. Clear definition of value creation taking the importance of stakeholder views into account.

- Because of the reasons described above (question 22).

2. Technical guidance on how IRF relates to other reporting standards, particularly to sustainability reporting.

- Because IRF describes <IR> as a concise report supported by other reports (financial and sustainability) without explaining how this relation would be

- Because IRF refers to existing concepts from other reporting standards

- Because in order to implement an 'integrated reporting' process – even to result in a report that focus on financial capital providers- financial and sustainability reporting processes have to be considered and this is not mentioned in the IRF

- Because thousands of organizations are currently preparing financial and sustainability reports and will have to understand how these processes are related to IRF reporting process

Other

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