

July 15, 2013

Mr. Paul Druckman, FCA  
Chief Executive Officer  
The International Integrated Reporting Council  
By e-mail via website  
[www.theiirc.org/consultationdraft 2013](http://www.theiirc.org/consultationdraft2013)

Dear Mr. Druckman:

**Re: Consultation Draft of the International Framework – Integrated Reporting**

Dear Mr. Druckman:

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Integrated Reporting Council's request to comment on its consultation draft on Integrated Reporting. We appreciate the opportunity to provide comments.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,800 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controllershship, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting ("CCR") is one of two national advocacy committees of FEI Canada. CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

Thank you for allowing us the opportunity to respond to this proposal.

Before responding to the specific questions put forth by the Council, a summary response would perhaps best capture the essence of the thoughts expressed below.

We agree with the concept of an Integrated Report (IR) that would provide a concise summary about how an organization's strategy, governance, performance and prospects lead to the creation of value for its key stakeholders over time. For jurisdictions around the world that currently do not have stakeholder reporting outside of the core financial statements (and in certain respects even for ones that do), it would be a major step forward in providing a more fulsome discussion of total corporate performance that would assist users in assessing both past performance and future prospects of the organization using more of a "balanced scorecard" approach.

While we recognize that there is no intent currently to have Integrated Reporting mandatory in Canada (and that those currently preparing such reports and those considering them will be doing so on a voluntary basis), we would like to emphasize that there are some legal and practical realities in the Canadian environment that **preclude us from supporting this initiative on a mandatory basis in Canada** at some point in the future, in the absence of changes to the overall reporting framework noted below.

Firstly Canada already has a suite of corporate performance reporting requirements that address the needs of the full gamut of key stakeholders. These include, for most publicly accountable enterprises, the annual (audited) and quarterly (unaudited) financial statements, annual and quarterly Management's Discussion and Analysis (MD&A), Annual Information Form, Annual Information Circular and Sustainability Reports. Both users and regulators in Canada have concluded that the above reports, on the whole, meet existing user needs. Accordingly, a summary report added to the existing reporting framework could represent an additional cost burden on preparers if it were to be made mandatory.

As well there are legal constraints in the Canadian environment, including "form requirements" laid out by securities regulators on documents such as the MD&A and potential 3<sup>rd</sup> party liability stemming from legislation (eg. Bill 198 in Ontario) that are particularly sensitive to forward looking information that is disclosed.

Additionally, such a summary report would necessarily contain a mixture of audited and unaudited/unauditable data which could potentially confuse users with respect to the level of certainty over specific disclosures (although this is also true to some extent with existing reporting documents such as the MD&A). It could, however, make the position of the providers of any assurance (ie; external auditors) untenable.

Finally, many users and preparers have expressed their concern regarding disclosure overload and an additional document could contribute to that. If, in the future, Canadian companies were permitted to issue an Integrated Report *in lieu of* the above noted documents, then the IR would potentially represent an ideal and cost effective solution to the disclosure overload dilemma, but we do not anticipate this happening in the foreseeable future, given the Canadian regulatory environment.

That said, there are a number of interesting elements of the proposed IR framework which currently are not explicit requirements, or at least do not receive the same focus, in current Canadian reporting. These include: a) a clear description of the organization's business model b) a listing and descriptions of the various types of capital that the organization is actively managing to enhance shareholder value (current focus is only on financial capital) and c) clear distinction between short term and longer term goals and results. We believe, however, that these are best captured by enhancing the existing guidance on the MD&A (which in Canada has been established as the most widely read of the above noted reporting documents) provided by the Canadian Performance Reporting Board of CPA Canada, rather than embedding in an additional summary reporting document such as the IR.

With the above in mind, the following represents our comments on the specific questions raised, in the spirit of assisting you in advancing your initiative in other jurisdictions that could benefit from it.

Yours very truly,



Gordon Heard  
Chair – Committee on Corporate Reporting  
FEI Canada

## Responses to IIRC Consultation Questions

### Chapter 1: Overview

#### Principles-based requirements

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

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

#### **Response:**

We do not think any additional principle-based requirements should be added to the Framework. We do believe that prescriptive terminology contained in various parts of the draft is inconsistent with a principles-based framework. Such prescriptive terminology should be removed. In addition there is a “comply or explain” mentality that should also be softened. The detailed explanations as to why an organization chooses not to comply with a specific requirement are lengthy and defeat the purpose of a concise document.

#### Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraph 1.18-1.20).

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

#### **Response:**

We agree that the IR should interact with other reports in the nature indicated and include frequent cross references. We do, however, question whether in jurisdictions similar to Canada that have set reporting deadlines (which may vary from each other from a timing

perspective) this can be achieved. Sustainability reports, for example, may follow a different reporting cycle than financial reports.

3. If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

**Response:**

Examples of decision models to assist organizations in determining appropriate measures could well be helpful. An example in Canada is CMA Canada’s publication series “Future Value Drivers”. Other examples include GRI, CDP, WEF Global Risk Report, DJSI etc.

**Other**

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

**Response:**

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

In paragraph 1.12, the third bullet point seems to require that certain information be provided without regard to the cost of obtaining it. If management determines that the perceived benefits to themselves and external users are not commensurate with the costs, then there should be no obligation to provide it.

We concur that the IR should be prepared primarily with providers of financial capital in mind as the primary users, at least initially.

Some further clarification on the extent of detail contemplated would also be useful as there is a delicate balance between conciseness and the level of depth necessary to fully understand the subject matter, which could vary significantly by topic.

**Chapter 2: Fundamental concepts**

**The capitals (Section 2B)**

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-

2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

**Response:**

While the concept of the capitals set out in the draft provides useful guidance for organizations in determining whether they have considered all matters that are significant to strategy and performance, many organizations will find that the capitals as indicated in the draft are inconsistent with their approach to actually managing the business. Accordingly we do not believe that organizations should be required to use all of the six categories but rather select those that are most relevant to their business. This approach is another example of the “comply or explain mentality” - there should be no need to explain why any of the six capitals are not discussed in the IR. This is also an example of one of the internal inconsistencies in the draft - paragraph 2.19 indicates that organizations are not required to adopt all of the categories in the Framework, paragraph 2.29 states that the IR does not need to include an exhaustive list of the capitals and yet paragraph 4.5 seems to require that all of the capitals identified in the Framework be used or detailed explanations are required to explain why they were not considered material and thus not disclosed in detail.

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

**Response:** No further comments.

**Business model (Section 2C)**

A business model is defined as an organization’s chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

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

**Response:**

We believe that a discussion of an organization’s business model will help users better understand the organization and that the definition used in the draft is appropriate, although perhaps incomplete. It should be for organizations, though, to communicate their business model in their own terms and for guidance from the IIRC to be used as a point of reference.

8. Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs (paragraphs 2.35-2.36). Do you agree with this definition? Why/why not?

**Response:**

We agree with the definition of “outcomes” but believe it is best left to the organization to determine which external outcomes can be objectively and reliably assessed and reported.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (Section 4E).

**Response:** While we would resist the disclosures in paragraphs 2.32 and 2.45 which could expose the organization to competitive harm, we recognize that, in the overview to the draft, relief is provided from disclosures that may cause such harm.

**Other**

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

**Response:** For companies with diverse business models (eg. conglomerates), the discussion about how the organization creates value could be quite lengthy. If included in each IR periodically issued it could inhibit the report’s conciseness. Accordingly it may be more appropriate to include the full description in the first IR issued and for subsequent IR’s to cross-reference back to that document and only highlight any changes in the business model since that time, or alternatively have the detailed business model discussion in another document (such as the AIF in the Canadian context) or on the company’s website and cross reference to that document or source.

### Chapter 3: Guiding Principles

#### Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23- 3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

**Response:**

We agree with the focus on providers of financial capital as the audience for an IR. We do not, however, agree with fundamentally altering the concept of materiality as is currently understood and used for financial reporting purposes.

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

**Response:**

We believe the term “matter” may be used too broadly to provide guidance on appropriate matters to disclose in the IR. In the context of an “event”, paragraph 5.11 of the draft indicates that a matter with a low likelihood of occurring, but a large potential effect if it did, is more important to disclose than one with a high likelihood but small effect. This requirement could lead companies to report, in boilerplate fashion, a larger number of items (particularly risks) which would defeat the purpose of having a concise integrated report. Instead (if indeed a mechanical weighting is required) the potential impact is the product of the financial effect and the probability of occurrence over a specified time frame. Companies should focus on reporting on how they are addressing both opportunities and risks that are expected to have a material impact on the company’s strategy and performance over the next 10 years (or whatever period is appropriate for their industry’s business cycle). In so doing, however, companies will be cognizant of the competitive sensitivities of disclosing this information.

We also disagree with the prioritization process in 5.12 that proposes that, if the list of material matters is too long, the materiality threshold should be revisited to shorten the list. This approach seems somewhat contradictory. Once an organization has determined a materiality threshold, presumably they should remain consistent with that throughout the document in order to preserve the integrity of their reporting. We also believe that materiality, in the context of all corporate reporting (financial or otherwise), whether in existing reporting documents or a new form of integrated report, is an important enough topic to warrant a separate exercise.

**Reliability and completeness (Section 3E)**

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

**Response:**



We believe that both robust internal reporting systems and management and Audit Committee review and approval are appropriate. This is the current quality assurance process in Canada surrounding the MD&A and other unaudited documents. We do not believe that stakeholder engagement, in and of itself, improves reliability (though it may well, however, increase transparency. In addition, external assurance (at least audit-level assurance) would be difficult to provide on the IR, as, by its nature, it contains a mix of audited and unaudited/unauditable data. We believe external attestations are premature at this stage.

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

**Response:** No further comments.

#### Other

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

**Response:**

#### *Chapter 3, Section 3C - Stakeholder Responsiveness*

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

It is likely, however, that an organization would be able to neither report on the quality of the relationships with its various stakeholders nor discuss this in an objective manner. In our view, it would be better for organizations to discuss their approach and/or process for stakeholder engagement, than to discuss the quality of the relationship. Accordingly, we believe this aspect of the Guiding Principles should be reframed in terms of the approach taken to understand stakeholder needs.

#### **Chapter 4: Content Elements**

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

**Response:**

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

We agree that an IR should have a future orientation. The Performance and Future Outlook sections of the draft, however, place too much emphasis on quantitative future-oriented information, for example paragraphs 4.31 and 4.37. In the Canadian environment, there are securities regulatory compliance requirements that must be observed when reporting quantitative future-oriented information and these requirements result in significant monitoring and maintenance costs, the absence of which can result in substantial 3<sup>rd</sup> party liability. As well, organizations are sensitive to disclosing forward-looking information that could jeopardize their competitive position. Instead, the focus should be more on qualitative elements, such as whether the company has exhausted its opportunities for organic growth and is looking to acquisitions or geographic expansion as part of its future growth strategy (with consequent higher risk levels). While metrics can be used to augment and support the forward looking view, the nature of these metrics and time periods selected should be left to the discretion of the organization. We do not believe sensitivity analysis should be mandatory for competitive reasons.

**Chapter 5: Preparation and presentation**

**Involvement of those charged with governance (Section 5D)**

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

**Response:**

No. Management is responsible for the accuracy and completeness of the IR. Those having oversight accountability (eg. Audit Committee) should review and approve it prior to its release, but no explicit statement of their responsibility should be made.

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

**Response:**

In some parts of the draft one may get the impression that those charged with governance are responsible for the IR reporting process and the production of the IR itself. This is incorrect. See notes above in question 17.

#### Credibility (Section 5E)

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

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

#### **Response:**

As noted above, it is premature to seek external assurance (at least audit-level assurance) on the IR for the reasons noted above. Attempting to provide partial assurance on the auditable elements of the IR would be potentially confusing to users. Some form of assurance on the entire document (such as a review engagement) may be possible once the IR reporting process has matured.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

#### **Response:**

The entire discussion about reliability and credibility, scattered throughout, looked out of place in this document. The focus should be on developing the IR framework itself, both guiding principles and specific content requirements that are important to users in their decision making process and that also meet the cost/benefit, regulatory compliance and competitive sensitivity tests. Only after this goal is achieved should matters of assurance be addressed, possibly in a separate document.

#### Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

**Response:** No further comments.

#### Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

**Response:**

We agree with the concept of an IR that would provide a concise report about how an organization's strategy, governance, performance and prospects lead to the creation of value in both the short and longer term.

For jurisdictions such as Canada, however, we believe that existing requirements for an MD&A capture the majority of elements contained in the draft and we do not see the need for a separate summary document. Rather, the new concepts introduced in the draft (eg. business model discussion, the capitals, additional time dimension context, integration of sustainability elements (which is done in leading Canadian reporters already)) may serve well as additional guidance for the MD&A document. In Canada currently there is no evidence that that providers of financial capital (primary users) are demanding an IR and that the IR, as currently envisioned, would be in addition to all the existing reporting requirements and would involve additional cost without commensurate benefit.

**Development of <IR>**

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

**Response:** No comment.

**Other**

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

**Response:** No comment