

## 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](http://www.theiirc.org)).

### Comments should be submitted by Monday 15<sup>th</sup>, 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.

Our most significant comments include:

- Target audience should not be first and foremost 'providers of financial capital'.
- Identification of risks is helpful, but the IR Framework should encourage companies to talk about how they are managing these risks and what lessons have been learned from past mistakes.
- Conciseness is a guiding principle and is not applied diligently throughout the IR Framework. The Framework is too long and there is far too much repetition.
- The difference/relationship between outputs and outcomes is challenging to define when practically thinking through a company example. There needs to be one or two examples of the relationship between outputs and outcomes in order to aid reader understanding.
- Integrated thinking should be more prominent. We feel this is the strength of the

initiative, but that the IR and IIRC naming focuses too much of integrated reporting and 'hides' the philosophy of integrated thinking. Being realistic about the likely inability to change these organizational terms, we suggest a more up-front, obvious pitch of the integrated thinking concept so that newcomers understand this from the very beginning. It is a powerful concept and should not be lost.

## 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.*

No - looks good.

### ***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?*

Generally speaking, yes we agree. Continuity is important among communications. All companies should strive to have a consistent message to stakeholders. An improvement to this section could include:

- Define to what extent should other communications - i.e. sustainability reports and financial statements - include material already detailed in the integrated report. More guidance on practical application would be helpful. Should it be called an Integrated Report? Or does an Annual Report with integrated reporting principles suffice?

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?*

Creation of an online database would help companies with quantification aspects of an integrated report, but it would be helpful to better understand the purpose of this database and how reports would be expected to use these sources considering that the IR Framework is principles based. Also, is it feasible to make the database globally applicable, considering all of the country standards?

To answer the question, our initial thoughts include:

Carbon Disclosure Project

Emerging Issues Task Force

Financial Accounting Standards Board  
Global Reporting Initiative  
Greenhouse Gas Protocol  
International Financial Reporting Standards  
International Standards Organization  
London Benchmarking Group  
Occupational Health and Safety Advisory Services  
U.S. Securities and Exchange Commission

***Other***

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

We have a few comments related to the target audience of 'providers of financial capital':

- On the whole, we agree that providers of financial capital are the right audience to emphasize, but as a public company, we also have to consider analysts, regulatory bodies, etc. Thus, we feel that limiting the scope to providers of financial capital does not fully consider those who will use the report. This holds true from our experience in advising clients on integrated reporting as well.
- Additionally, our sense is that employees, future employees, clients, media, etc. are also important stakeholder audiences who are likely to benefit from an integrated report. As examples: employees have a long-term stake in a company; and clients want to know we are protecting them from conflicts of interest.
- It could be made clearer what is meant by 'providers of financial capital' by saying 'for example x and y are providers of financial capital'.
- Lastly, why did the framework switch from investors to providers of financial capital? Is this over-complicating the intention?

We therefore recommend that the target audience should be 'flipped' from what the IIRC currently advocates - i.e. the target audience should be anyone who deals with the organization with an emphasis on providers of long-term capital.

1.2 mentions a 'periodic' integrated report, which is later stipulated as annual in 1.18 and 5.2. Why not state annual, too, in 1.2?

Additionally, 1.17 would be enhanced by adding ' to control the organization's environment' after 'to assess resilience' in the second bullet point.

## 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?*

Yes - they provide a much broader scope than companies currently consider, which is good.

Overall, we feel that the capitals are a good starting point for defining a company's value creation story. However, from a financial perspective, having to disclose the capitals that are immaterial is not relevant to the intended user of a financial statement. We do see this being relevant for the wider picture, as it shows a systematic and transparent approach to a company's materiality assessment. Plus, this is common best practice for several types of disclosure. It holds companies accountable for the 'why' around non-disclosure of certain areas. But, we do have some concern around the potentially exhaustive nature that this requirement could entail, which does not align well with the IR principle of conciseness. We therefore recommend that it is not mandatory to describe 'why' when you do not disclose items and that this is instead left to the discretion of the company.

Additionally, the IR Framework includes manufactured capital, but what about services? I.e. the extent to which companies rely on outsourced services such as computer services from IBM. This could be added as a sub-bullet under both Human and particularly under Social and Relationship.

Lastly, we are unsure as to what exactly is meant by 'social license to operate'. We understand the term generically, but it would be worth explaining.

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

The figure in 2.17 is slightly misleading, unless you read the small print underneath. Can this explanation be included more boldly, perhaps on the diagram itself? Otherwise, we question what the different proportions represent and/or what is the reason for the capitals to be ordered the way they are. Could add a vertical 'axis' or line with 'narrow view' at the top and 'broad view' at the bottom (or something similar).

Related to an earlier point about the importance of services, the fifth bullet point in 2.28 refers to supply chain management. The Framework should include outsourced services (lawyers, independent contractors). We feel the framework ignores services and focuses too narrowly on physical products only.

### ***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 - on the whole, we agree with the definition. It describes the entire business cycle and is general enough to fit into all companies.

One related consideration: Where do stakeholders fit into this model? I.e. are outcomes essentially the impact and consequences to key stakeholders such as clients, community and employees?

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 find this concept confusing and vague.

- What is the purpose of the 'outcomes' definition? Is it used elsewhere?
- Is the first sentence in 2.35 supposed to be 'of the capitals'?
- What is the link between stakeholders and outcomes?
- Outcomes from which perspective? How the company benefits? The person receiving a service? The wider impact economically, socially, environmentally? The framework defined internal versus external, but gets quite complex considering that the consequence could vary greatly depending on who or what receives the output.
- What is the relationship between outputs and outcomes?

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.*

2a: There could be additional emphasis on how risks are managed. The Framework requires disclosure of risks, but the key is how a company manages these risks. It is a good management exercise to make companies talk about how they deal with risks and where they have failed, so that they can learn from their mistakes.

2.39: Much like 'social license to operate', we can hazard a guess as to what it means, but also find 'planetary limits' a bit of an odd, needs-to-be-defined term.

## 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?

Yes - we agree with this approach to materiality.

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

The requirement for annual materiality assessments seems very prescriptive and a bit unnecessary. Regular sense checks are good, but we feel a full scale review every 3-4 years is more appropriate.

### **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?

This is an important area to consider. Firstly, it could be made clear which body will oversee compliance with the IR framework and how they will work with existing bodies (e.g. regulators) to ensure companies are meeting external reporting standards. Secondly, sign off from a senior member within the company should be required. The requirement could be an extension of the sign off already included in the U.S. Securities and Exchange Commission Form 10-K documents by CEOs and CFOs. Thirdly, we feel initiatives such as the Global Reporting Initiative's 'self-declare' option does not provide the right level of confidence to the reader and would recommend that this type of practice is not adopted. However, something similar should be enacted so that outside users can quickly understand which companies truly understand and apply the IR Framework well versus those that do not apply it well or say they do, but do not really apply it deeply. A measure of success to determine the extent to which a company has correctly and fully applied the IR Framework would be useful.

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.

3C: Should guidance be included around identification of key stakeholders in this section?

3.3: In this paragraph, there is another opportunity to gain insights into how risks are managed that are associated with a company's strategy. Companies do not talk about

this explicitly and it causes issues. The IR Framework could enable company's to 'air their dirty laundry' and learn from their mistakes.

## 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).

The framework often refers to 'senior management and those charged with governance' - can it just be left to 'senior management'?

Why is the business model both a fundamental concept and a content element? 4E feels very repetitive.

Related to section 4.20:

- Disclosure around competitive advantage will need to be really high-level due to confidentiality reasons.

- Sharing long-term plans could inadvertently result in providing insight to our competitors.

## 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?

Yes. This requires leadership to fully understand IR principles and to embed the process more holistically into the organization.

We question whether those charged with governance should ultimately be responsible for an integrated report, mainly because we are not clear on what this means. Is it a CFO? A Controller? A CEO? It would be helpful to define this phrase.

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?*

Likely none or specific parts. There should be a requirement to ensure that reasonable steps have been taken to ensure the information is materially correct, but we feel that mandating assurance would be a large task and would require a significant change in the way a company monitors non-financial information. It could be costly without a direct indication of added value. Until there is explicit business value or more credibility sought by the marketplace, companies should not have to assure their full report.

As an alternative, it would be worth encouraging companies to take intermediary steps, such as having internal audit functions review processes and systems alongside the inclusion of an external statement that asserts that efforts have been made to ensure the information is materially correct. This would allow companies to identify a few non-financial KPIs and areas that would benefit from additional rigor without requiring significant investment and time.

*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).*

It would be helpful to have more guidance on the balance of qualitative versus quantitative information - what is the expectation?

5.27 - Are joint arrangements and investments inside the reporting boundary? If so, why do they overlap and fall a bit outside the outer rectangle?

## **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 are supportive of a company's use of integrated reporting and feel it will lead to a strong depiction of a company's value creation story. Positively, we also think it will help breakdown silos internally; monetize environmental and social costs for an organization; offer connectivity between various communication outputs such as a company's sustainability and annual reports; and drive non-financial practices deeper into the DNA of a company with an aim to capture the full value of an organization.



## 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?*

- Materiality: This is a key concept that is worth further guidance. E.g. how should companies go about deciding material issues? Which tools or frameworks would aid this process?
- The relationship between the various components of the business model: Again, another key concept worth diving into further, especially around practical examples of how a company might define inputs, business activities, outputs, outcomes and the interplay between each.

## Other

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

For many companies, the ability to measure non-financial information will be challenging given that it likely requires changing the way companies track their business activities. It may cause significant IT and training investments. Although a cost/benefit paragraph is included in the IR Framework, it would be helpful to dive deeper into the practicalities of what IR entails for a company.

Considering that conciseness is a guiding principle, there is a lot of duplication throughout the IR Framework. The draft also begins to 'tire' a bit by the end - eliminating repeated information could help the reader make it through the draft with 100% alertness and interest.

Page 7 should include the concept of how a company has learned lessons from past operations and history, including mistakes and things gone wrong. I.e. a clear depiction of a feedback loop. The framework could address this by adding a new question OR sub-bullet under risks/opportunities such as: "How does the organization implement controls to avoid losses from risks? How do you create a learning organization – good and bad?"

Paragraph 1.9 is an example of where the language becomes a little sloppy. I.e. 'assessing these things' would read better as 'assessing these elements'. This type of 'lose' language occurs a few times throughout.

Overall, the IR Framework should more clearly state that Integrated Reporting does not necessarily mean one report. For US companies, a Form 10-K is filed early in the year, followed later by a Proxy Statement and the Annual Meeting. It would be unrealistic to expect that all of this information, including non-financial information, is ready at the time our Form 10-K needs to be filed with the SEC. Aside from this, we do not feel that this is necessarily the expectation of IR, but it needs to be made clearer that companies can still adhere to the IR Framework despite having multiple reports.