

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.

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Stakeholder group:	<input type="text" value="Report preparers"/>

If replying on behalf of an Organization please complete the following:

Organization name:	<input type="text" value="BrownFlynn"/>
Industry sector:	<input type="text" value="Not applicable"/>
Geographical region:	<input type="text" value="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.

BrownFlynn would like to thank the IIRC for the opportunity to comment on the Consultation Draft of the International <IR> Framework. We recognize the important role that reporting plays in assisting organizations to manage their internal and external impacts, and we support the efforts of the IIRC to integrate financial and sustainability reporting.

In terms of the draft framework itself, BrownFlynn has three overarching concerns: advancing the knowledge base of the primary intended report users; clarifying the parameters and purpose of integrated reporting; and improving the utility of the framework for U.S. organizations. We outline these three concerns within our specific comments below.

Thank you again for the opportunity to provide feedback. We appreciate the work of the IIRC and we look forward to the progression of the <IR> framework.

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 principles-based requirements do not contain language that financial and sustainability reporters are accustomed to seeing. The IIRC should strive to align its terminology with widely-used reporting language so that the user experience is straightforward.

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?*

The interaction requires clarification. Are there any communications from which the framework should be excluded? Does the integrated report constitute a third report, in addition to separate financial and ESG/EHS reports? If not, what does the integrated report streamline? In other words, what are the specific components of an integrated report that are being merged from prior reports? Adding specific language and examples would be helpful for the user.

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?*

Other

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

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 IIRC should clarify the difference between an organization's consideration of financial capital and the role of financial capital providers in prioritizing material issues. It seems that the capitals are used as a way for an organization to understand its internal and external impacts. Yet the framework states that financial capital providers ultimately determine the priority of material issues. A reporting organization may become confused by the apparent dual role of financial capital in determining report content.

Additionally, the term "benchmark" is improperly used for the U.S. audience. A better term in this instance would be checklist or agenda.

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

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?*

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?*

The IIRC should consider using terminology that is more familiar to U.S. organizations, such as "value chain."

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)?*

Other

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

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?*

In general, financial capital providers have the most limited knowledge base of any stakeholder group about Environmental, Social and Governance (ESG) issues. We view integrated reporting as an opportunity for financial capital providers to become more educated about ESG issues. ESG data have financial implications, but many providers do not understand these implications. This lack of understanding could create problems when preparing an integrated report. For example, if an organization prioritizes the views of financial capital providers who do not believe that climate change is real, the organization could exclude climate change as a material issue for that reason. Integration does not truly exist if material ESG factors remain excluded. Integrated reporting has the opportunity to generate new conversations and management approaches and to enhance the education of its primary intended users.

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

A materiality assessment is unique to the reporting organization, which means that each organization will determine how to engage stakeholders and decide which specific questions to ask during the engagement process. Based on the draft framework, how would an organization determine what is important to financial capital providers? The framework may need to provide more guidance on how to educate its financial capital providers prior to prioritizing their viewpoints. Perhaps the organization could use information gathered from other stakeholders. Integration could be achieved through sharing knowledge across its stakeholder groups. For example, an investor could learn more about the organization's supply chain risks and a supplier could learn more about the organization's value creation goals.

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.

Other

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

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 general, more specific language and guidance in the Content Elements would be helpful to reporting organizations. The IIRC has an excellent opportunity to create indicators that would demonstrate the relationship between financial performance and behavior on ESG issues. For example, the framework could include an indicator that compares diversity in the workforce to financial return. This type of indicator would be supported by IIRC research and the framework could include a helpful excerpt examining the topic, such as “___ % of diversity makes a positive financial impact of ___ for an organization of ___ size.” This type of indicator would resonate with the primary report users, in addition to providing a tangible and useful integration of financial and ESG reporting. In its current form, the framework does not express the value proposition for companies. Specific and informative indicators would highlight the value in composing an integrated report.

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, those charged with governance should be required to include a statement acknowledging their responsibility for the integrated report. A statement of responsibility is the most basic and necessary sign of credibility for report readers.

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?

We recommend that organizations obtain assurance on specific aspects of the report. Additionally, the assurance section would allow companies to state an adherence to the overall framework as intended.

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.

The IIRC may need to address how it distinguishes between assurance and auditing. For example, U.S. companies are required to complete audits of financial statements. This type of assurance is different from assurance recommended for ESG issues. Clearly separating what is required from what is recommended would be helpful for U.S. report users.

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).

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?*

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?*

U.S. companies would benefit tremendously from specific guidance on how preparing financial statements could integrate with preparing ESG information. For example, how does a 10-K filing fit into an integrated report? The IIRC has an opportunity to break down the divide between financial and non-financial reporting in American corporate culture. Explanatory material that specifically assists U.S. organizations would help the IIRC seize this opportunity.

Other

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

In general, the framework could be improved by highlighting the specific areas intended for integration. In order to convince organizations of the value of integrated reporting, users must be able to understand: the purpose of integration; the value that can be achieved from integration; and how to successfully merge financial and ESG reporting without excluding material issues.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013