

## 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.

## 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 choice of <IR> as completely principles-based report is here commended, but it also opens up a series of potential issues which we feel should be carefully considered:

- The use of the term «requirement» along the document does not appear consistent with a full principles-based approach;

- A potential lessening of the comparability of the reports amid companies. There is a need to better clarify the meaning of the concept of «comparability» in <IR> which appears to be linked more to transparency & consistency over time;

- Similar issue is relating to the standardisation of information, an important element for financial analysts

- <IR> may create a larger room for management manipulation and asymmetric behaviour between good and bad news. The need stressed by the IIRC of consistency in company information through time is only a partial solution. Sound & effective assurance needed;

- A different cultural sensitivity to the principles-based approach may lead to dissimilar interpretations in various contexts.

### ***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?*

If <IR> is not going to be the only corporate report in due course, this may be problematic, since there will be no reduction of administrative burden on companies (cf. European Union's action to reduce this burden)

Is <IR> to be considered as part of the Management Commentary? Or is it a tertium genus? However, what is the role of regulatory and market oversight bodies when a «sensible information» is contained in <IR>? Should they intervene?

<IR> and other forms of communication (financial statements and sustainability reports): some contradictions (e.g. «materiality» and «reporting boundaries»)

Need for reconciliation of <IR> numbers with those of financial and sustainability reports, with an associated auditing/assurance issue

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?*

We agree about the database, to be built possibly with information/indicators already available in XBRL.

WICI-KPIs are one of the obvious references to be included in the database ([www.wici-global.com/kpis](http://www.wici-global.com/kpis))

We think that, along the database, there will be a need for some criteria to be suggested by the IIRC for the use of these measurements and indicators

## **Other**

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

Issue of confidentiality should be more openly addressed. Now there is what seems to us a contradiction between confidentiality and the need for clarifying what information has been omitted and why (§§1.11 and 1.12). It would be useful to distinguish between transparency and privacy/confidentiality.

<IR> is a process of cultural change (p. 9, §1.15 ff). This aspect seems to disappear after the beginning. What are the behaviours that an organisation should put in place to achieve IR? What is the suggested process that an organisation should put in place to achieve them? How can IIRC and the Framework help organisations face and support change (e.g. tools)? Driving change is also part of <IR> journey

## **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?*

New notion of capital: Capital not as ownership (§2.23), but just as usable/available resource also at no economic cost. Difference with financial statements that should be recognised

Some more illustrative examples would be useful

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

Definition of "intellectual capital": it is really "organisational capital" as defined in the Framework (intellectual capital is synonymous with knowledge capital, which is not clearly dealt with in the Framework). There is a large literature

and many practitioners that interpret intellectual capital as the sum of relational, organisational and human capital. There is a virtually uniform acceptance of this definition of Intellectual Capital in the intangibles world and by institutions such as EC and OECD, and the choice by IIRC not to adopt this definitional approach appears to be unjustified and potentially misleading and generating confusion.

Brand as part of the relational/social capital, not of the organisational capital. Similar issue for external side of reputation

Flows of capitals and between capitals to be more described and made clearer with more examples, also for performance measurement/disclosure purposes (e.g. figure on p. 11 in the Draft Framework)

### **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 definition can be shared, but it is also highly conceptual and generically illustrated. This may be problematic for companies in order to decide at what «level» to position their description of the business model. E.g., for a department store the business model can be easily defined as buying some input and through logistics selling some outputs (generating also which outcomes exactly?), or the description can be brought down to the level of category management.

Some more guidance is advisable

Any relationship between business model in the <IR> and business model in IFRS 9, and if so, what is it?

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

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

We do not disagree on the definition of outcomes.

However, we think it would be useful to clarify to what extent outcomes should be taken into account in <IR>. Indeed, using the IIRC definition of outcome - it is not easy to distinguish exactly where to stop in recognising outcomes down the chain (e.g. should employment indirectly created/induced by an organisation through its activity be recognised in <IR>).

Some examples may help.

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)?*

Paragraph 4.26 can be formulated in a much better way.

### **Other**

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

Notion of value is very complex and articulated (§2.39) and not easily understandable, nor applicable. Until the 15 July there was a lack of the technical background paper, which did not help for comments.

Future cash flows are recalled as notion of value (§2.41) but also other forms of value are indicated as relevant (§2.42)

<IR> is about information on value creation (§2.37), but nonetheless there is a need to understand what is exactly value for <IR> in order to provide relevant information.

Long term value aligns interests of finance providers and society, but these interests are less aligned in the short and medium term

What is exactly short, medium and long term? Is this a concept linked to time or to the industry or to the business model of an organisation?

Value and (socio-environmental) sustainability: the relation is not very clear at the moment

## 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?*

Even though conceptually the materiality principle is identical, it is to be clearly recognised that the modalities of identification and application of this principle are different for the different reports.

In <IR> the reference point are providers of finance and only indirectly the other stakeholders (which are instead central for sustainability reporting). Therefore, it would be important to make companies and auditors understand whether and why materiality in <IR> is different from materiality in financial reporting and sustainability reporting

Possible differences may create difficulties in reconciling the numbers in the various reports.

A few illustrative examples of the materiality principle applied to <IR> for different situations/sectors would be useful

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

### **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?*

Reliability is a property linked to a reporting number or indicator. External credibility is helped by the assurance.

The two concepts may go hand in hand. However, reliability should be guaranteed by a strong internal auditing and control system, whilst credibility is based on the reliability and is supported by a properly exerted auditing process founded on ad hoc assurance standards.

However, by experience we believe it is also necessary for reliability of <IR> and

assurance to be granted, the existence of ad hoc <IR> preparation standards.

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).

Connectivity is a core concept

Cause-effects connectivity links not always easy to detect in practice (e.g., emerging strategy). For connectivity in <IR>, we see difficulties similar to those faced in constructing strategy maps for balanced scorecards

Some more guidance is needed. E.g., has connectivity to be identified between strategic objectives, capitals and performances? Necessity for some minimal shared methodologies to be devised.

Differentiating company elements are only cited (p. 26, § 4.20) and not much further developed or cited e.g., in the Strategic Focus guiding principle.

### **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?

In Europe we do believe that the signature of <IR> by those charged with the top responsibilities for company governance (e.g. CEO and CFO) is essential to the credibility of <IR>, especially in a logic of this document becoming the one and only company report and/or in the perspective of top management responsibility for the EU «Market Abuse» regulation.

Information has to be signed and attributed to the responsibility of an appropriate governance figure.

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

It should be clearly stated that <IR> needs to have an evident commitment from the top positions of the organisation.

A statement to be included in the <IR> may help clarify the above

### **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?

Assurance is essential. In principle, it would be very useful to have a full coverage of the whole <IR>. This can be achieved in steps over time.

For the time being a consistency opinion on some sections of <IR> seems like a more realistically achievable result.

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.

Cf. answer to question 13.

### **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 should be more clearly stated that the <IR> Framework should evolve through social and collaborative action

Reporting Boundaries (Section 5G) may well be different from those of the financial statements (group consolidation scope) and the G.4. (supply chain). This difference, though conceptually understandable, may create a strong practical problem to many organisations, which at that point will have to manage three different reporting areas (for consolidated accounts, for sustainability reporting, and for <IR>).

Do the <IR> reporting boundaries include the «related parties»? Can this be clarified?

### **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?

Like in all innovations, there might be some issues linked to the actual feasibility of a «real» <IR> in practice. The journey metaphor can be useful in this respect, and perhaps taken up again at the end of the document in order to underline the evolutionary dimension of <IR>

## 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?*

- Connectivity
- Capitals and their interactions between them and with the business model and the value creation process
- Business model

## Other

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

The concept of «Business Sustainability» can be usefully employed in <IR> to explain that socio-environmental sustainability is a necessary (but is not the only) element of business.

Underlying the <IR> there is a new theory of the firm, a new vision as to how a company should report on its strategy, governance, aims, prospects, which is primarily addressed to investors and which can be useful also to the other stakeholders. This can be added to the Framework with an important value added from a conceptual viewpoint.

It is not only about reporting and changing behaviour, as the Draft Framework states, but it is also about a new conception of company and capitalism, an innovative way of managing organizations, making better informed decisions, considering risks and opportunities. This could also be added into the body of the definitive Framework.