

## 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.

The McGuinness Institute welcomes the draft International Framework on Integrated Reporting as a framework for translating the integrated reporting concepts into operational guidance for all levels of an organisation. The Institute is a strong advocate of integrated reporting; in 2011 we produced 'One Integrated Report: a survey of New Zealand's top 200 companies'.

The McGuinness Institute is a non-partisan, not-for-profit research organisation specialising in issues that affect New Zealand's long term future. Founded in 2004, the Institute contributes to the ongoing debate about how to progress long-term thinking.

Wendy McGuinness, the Chief Executive of the Institute, was part of the team that worked on the development of the Public Finance Act 1989. Her particular contribution was the report on the 'Implementation of Accrual Accounting in Government Departments' (1988). She then ran a consultancy firm, McGuinness & Associates, providing services to the public sector during the transition from cash to accrual accounting. She was Chair of the Sustainable Development Reporting Committee at New Zealand Institute of Chartered Accountants (NZICA). She is a former Councillor at the

NZICA and has been awarded a fellowship, entitling her to use the term Fellow Chartered Accountant. Wendy also attended the Harvard Business School conference on Integrated Reporting chaired by Professor Robert G. Eccles; the author of *One Integrated Reporting*, in 2010.

## 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.*

We consider the proposed principles are fit for purpose. We were particularly pleased to see that 'strategic focus and future orientation' was included. We did wonder whether these were in fact two principles, and therefore whether it might be beneficial to separate these into two: 'strategic focus' and 'future orientation'. The first sits in the present looking-forward; whereas the latter arguably sits in the future looking-backwards'.

### ***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?*

Although we understand the need for this approach, we wonder if there is a risk of no clear guidance setter emerging in the short to medium term. The IIRC presents a unique opportunity to move this debate into action, it is after all the first time the wisest and most experienced brains on the planet have been brought together to show a way forward. I wonder if the IIRC is being bold enough. Using the analogy of the human body, the IIRC should see itself as providing the skeleton that is strong enough to move forward - enabling /directing /inviting /showing how other standard setting bodies might work (i) together or (ii) separately towards a common goal - delivering a framework for reporting in an integrated manner to a wide range of stakeholders. Such approach requires bravery; a real desire to make capitalism and democracy work together - hand in hand, to deliver outcomes we can be proud to leave for future generations.

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 understand that there have been a number of changes in the indicators market in recent years, hence we would prefer not to make any suggestions without firstly completing a detailed review of what is currently available. Our preference is for more general indicators that allow stakeholders to measure progress over time, rather than very specific and detailed indicators that are complex to prepare and difficult to interpret,

either in (i) isolation or (ii) without detailed knowledge.

### ***Other***

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

No other specific feedback, but we like the look, feel and content of the principles.

## **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, this approach is logical and comprehensive. We consider it creates a language that will be very helpful for ensuring informed debate over time and enabling strategic decisions to be made public and retrospectively assessed.

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

No other specific feedback, but we like Figure 4.

### ***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?*

Firstly we make the following broad observations over definitions - as defined in the glossary on page 36. Providing a language that is usable is really the first stage in developing a workable framework. We think there is room for improvement with the definitions. It is always tricky to ensure we do not overuse a concept in the definitions (e.g. short/medium/long term), that we use the strongest words possible (e.g. delete senior management and only use 'those charged with governance' when defining materiality), that we fail to draw linkages between terms (e.g. effects and values should be used more often and also separately defined), that we build concepts on other past concepts unnecessarily (e.g. overuse of financial reporting) or that we define things that are not needed to support the framework (e.g. value drivers).

Secondly, taking the above observations on board, we make the following suggestions to the definition of business models. We suggest (i) changing the focus by swapping the words the other way around, (ii) add create, capture and deliver (iii) replace business activities with processes, (iv) remove references to the short, medium and long term as no longer necessary, (v) also define value, (vi) also define effects. Hence we suggest the following definitions - note I would suggest you italics words defined elsewhere in the glossary - helps you see the relationships - this is shown by 'below' as we cannot format using italics in this format:

'A business model' describes the rationale of how an entity plans to create, capture and deliver 'value' to stakeholders through changes in 'inputs', 'processes', 'outputs' and 'outcomes' over time.

'Value' refers to the 'effects' that accumulate as a result of changes in the entities 'inputs', 'processes', 'outputs' and 'outcomes'. 'Value' will be different for different stakeholders and can be assessed in a variety of ways; such as economic, environmental, social or cultural value.

'Effects' can be:

- (a) any short, medium or long-term effects;
- (b) any internal or external effects to the entity;
- (c) any certain or uncertain effects;
- (d) any potential or probable effects;
- (e) any positive or adverse effects;
- (f) any temporary or permanent effects;
- (g) any past, present, or future effects;
- (e) any acute or chronic effects;
- (f) any cumulative effect which arises over time or in combination with other effects.

'Outcomes' describes the total 'effects' that occur on the six 'capitals' as a result of the way an entity seeks to create, capture and generate 'value' over time.

'Material' - A matter is material if, in the view of 'those charged with governance', that it could substantially influence the assessments of the report-users with regard to the organizations ability to create, capture and deliver 'value'. This means 'those charged with governance' of the entity must consider 'effects' on all types of stakeholders in terms of the level of uncertainty (probability), the level of magnitude (the impact) and the time scale (short, medium or long term and whether those 'effects' can be reversed), when determining what is 'material' and what is not.

'Report Boundary' - Determining the boundary for an integrated report should be driven by two questions:

- (i) what 'effects' will the entity generate while creating, capturing and delivering 'value'? and
- (ii) who are the stakeholders that will be affected by those 'effects'?

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?*

Using 'an organization's business activities and outputs' is a little confusing. If you add a definition of effects you do not need to use internal and external consequences - see effects definition earlier.

'Outcomes' describes the total 'effects' that occur on the capitals as a result of the way an entity seeks to create, capture and generate 'value' over time.

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)?*

You may need to also like to consider defining 'risk' and 'foresight'.

### **Other**

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

1. Really like the six capitals.
2. Not quite sure about the term 'value drivers' in para 2.45, is it necessary - it may simply create confusion.
3. Please note we suggest changes to the definition of 'outcomes' above and suggest a new definition of 'business model', 'value' and 'effects' in q 7. above.
4. Like definition of 'outputs'

## **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, like para 3.22.

Regarding 3.23, I am not comfortable with the term primary-user (who is this, it implies there are secondary users ... and who wants to be a secondary user). I am also concerned about a lack of clarity around footnote 5 - 'Importance refers to both nature and magnitude' and the use of unnecessary words (senior management). Under risk management you tend to always sit magnitude beside probability. I suggest you might want to change 'importance' to magnitude, and add nature and add probability (likelihood) -something like:

New definition - 'A matter is material if, in the view of those charged with governance, that it could substantially influence the assessments of the report-users with regard to the organizations ability to create, capture and deliver value. This means those charged with governance of the entity must consider effects on all types of stakeholders in terms of the level of uncertainty (probability), the level of magnitude (the impact) and the time scale (short, medium or long term and whether those effects can be reversed), when determining what is material and what is not.'

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

See above. Report writers need very clear guidance here, see new definitions.

### ***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?*

Yes, like para 3.30, particularly the term 'material error'.

In answer to question 13, I have always considered the real test of a reliable and trustworthy report is that two independent professionals, provided with the same information, would prepare very similar reports. Hence 'reliability' should be demonstrated by the ability of two or more professionals to produce reports of a similar content, and that two or more independent readers of those reports would come to the same or very similar conclusions. The consequences of preparing a quality integrated report should therefore ensure the market is an informed market and as a result - better decisions are made by all parties.

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

Comments are made above.

### ***Other***

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

Please note we suggest the first guiding principle (in para 3A) be divided into two: 'strategic focus' and 'future orientation'. The first sits in the present looking-forward; whereas the latter arguably sits in the future looking-backwards'. Both are important and it is this difference that is important. Most business would argue they have a strategic focus, but not all would be able to prove they have a future orientation.

## **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).*

We consider the content elements are excellent; providing a great way for even small businesses to prepare integrated reports. We also like how they are question based; driving answers to key questions.

Regarding 4E - 4.21; we suggest that 'what extent is it resilient' needs to be more descriptive. We are not sure if the world would be a better place if we created more resilient (as in bending, flexible, lenient, limber, pliable, pliant, soft, yielding) entities?

We prefer the word 'anti-fragile', it is a relatively new word which goes further than resilient and robust; it invites entities to be creative and intelligent, changing form to evolve into new business models, destroying preconceived business models and always

looking forwards, seeking out options and opportunities and where appropriate de-constructing itself to create even more value in the longer-term.

To learn more on this idea, see Nassim Nicholas Taleb latest book titled 'Antifragile. He previously wrote The Black Swan, see our blog here - <http://mcguinnessinstituteblog.org/2013/03/01/antifragile>.

## 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, we consider it critical that someone takes responsibility. This way it invites them to acknowledge limitations and plan for how they might make the report better in the future. Making people sign off is a great way to make them think deeply about what they are signing off - it invites them to set out challenges, opportunities and limitations to the reader and how they might collect better information in the future.

Further, you may need to think about the wording here - 'acknowledging their responsibility for the integrated report' may not be sufficient - how about something like:

'This report has been prepared to the best of my ability. I have actively inquired into all the risks, costs and benefits apparent at this point of time, and ensured that a true and fair representation of those risks, costs and benefits are contained within this report. Where material uncertainties exist, these have been discussed in terms of the degree of uncertainty and the possible consequences.'

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

Reading question 17, we thought you might like to revisit the concept of a "true and fair view". The true and fair view is applied in ensuring and assessing whether accounts do indeed portray accurately the business activities. This concept could be applied to integrated reporting; in that the application of the "true and fair view" has created certain concepts and conventions which aim to ensure that reports present information accurately and consistently to users of reports.

### ***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?*

It should cover the integrated report as a whole so as to be in line with the concept of integrated thinking; partial assurance might negatively impact on the credibility of the whole report. A way around this might be to create a subset in the Assurance Report; an 'Assurance Statement on the Financial Reports' that sits within the 'Assurance Statement

on the Integrated Report'.

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.*

Perhaps just a comment that stockholders rely on reports 'being able to be audited', even when they are not. In other words, the mere fact they might be audited or are able to be audited by an independent person/body in the future; acts as an incentive for good reporting.

### **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).*

'Reporting boundary' - this definition I think could be improved as it is too woolly (but it is a hard one). The onus here, as I understand it is to require the person preparing the report to define the boundary first. I agree with this approach, but suggest there should be more guidance. Para 5.25 implies two aspects are to be considered - financial reporting and stockholder reporting. We suggest that the only way to define a boundary under integrated reporting is to define the boundary through the nature of the effects and the stakeholders (not as an add on to financial reporting). This means 5.25 should be written along the following lines:

5.25 "As required by para 4.5, an integrated report identifies its reporting boundary and explains how it is determined. Determining the boundary for an integrated report should be driven by two questions:

(i) what effects will the entity generate while creating, capturing and delivering value?  
and

(ii) who are the stakeholders that will be affected by those effects?

I do not think you need para 5.26, as I cannot see why this context is needed.

### **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?*

It is a great initiative. The framework is very logical and provides a solid basis for operationalising the concepts and ideas that underlie integrated reporting. It also provides a good skeleton for further discussion and debate.

Our concerns are whether this will be enough in the medium to long-term. The reality is we all know that we need to present data in an integrated way so that tough decisions can be optimised; otherwise we are simply vulnerable to the approach that any information will do.

What we are interested to see is the extent countries will pick up this gap if entities do not come to the party. What the IIRC is putting in place is largely a voluntary framework



with no real teeth; if companies mislead (green wash) there situation, how are they to learn to be accountable or put more bluntly held to account.

For these reasons we suggest a review process is written into the framework, say in ten years (2023). This will not only provide an opportunity to revisit the framework and identify issues that need resolving, but more importantly explore whether the concept of the IIRC is fit for purpose. I think we need to see some long-term thinking about where the IIRC fits in this journey towards integrated thinking on global issues.

## 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. Reporting Boundary - if you get it right the report is easy to write - what is in and what is out must be defined up front.

2. What the difference is between strategic focus and future orientation? - lets try and understand this more, what are you really try to get them to do. Is it for companies to be more resilient or more anti-fragile or more responsible to all the other stakeholders out there.

3. Materiality - always a headache so more guidance here would be great.

## Other

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

Apologies if these are already mentioned but I did not read anything on the following topics:

1. Public sector reporting; is this included in this framework?

2. Public policy analysts as report users; I think they will become a key report user in coming years.

3. Use of reports to report poor governance; for example where an entity has been responsible for death or environmental discharge. Integrated reports as a report card on the entity over say the past 12 months is critically important. We would like to see all legal judgements that impact on stakeholders to be reported in the regular integrated reports of entities.

4. Related to this is a discussion on the difference between reporting at one point of time (the balance sheet concept) verses reporting over time (the profit and loss concept). Both of these concepts are also very relevant in the preparation and use of integrated reporting.

5. Potential compatibility with other systems and concepts; particularly national sustainable development strategies. I have just returned from a EU conference on NSDS held in Austria, and the challenges are very similar for countries wanting to report in an integrated manner - there appears to be a real opportunity to use this reporting framework in national reporting.