

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.

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 NAPF is the leading voice of workplace pensions in the UK. We speak for 1,300 pension schemes with some 16 million members and assets of around £900 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

There is increasingly robust evidence that extra-financial factors can significantly impact a company's long-term value, reputation, brand growth rate, margins, market share and borrowing costs. There is also evidence that investors are increasingly keen to incorporate such factors within investment analyses.

Given the above, we have been consistently supportive of the development of an International Integrated Reporting Framework that helps companies to prepare balanced and consistent forward looking reports which more effectively communicates their value-creation process; helps policy makers and regulators to achieve consistency of reporting frameworks and importantly allows investors to better understand and value investee companies.

We welcome this opportunity to comment on the draft framework. In our response we strongly echo the positive and constructive response submitted by the International Corporate Governance Network (ICGN).

We warmly welcome the acknowledgment that investors, as the suppliers of financial capital should be the primary audience for integrated reports. Whilst the report will undoubtedly be of value to other constituencies also, the focus should be on communicating to shareholders. Furthermore whilst the information will be equally relevant for providers of debt the materiality test should be from the perspective of providers of risk capital - namely equity.

We are strongly of the view that investors will benefit from integrated reporting and the greater insight it provides. The bringing together of different elements will provide for a fuller understanding of the business model, the underlying strategy and how value is created, thus allowing shareholders to be more effective stewards of investee companies. That said, it is important to acknowledge that while investors will benefit from this greater understanding of the connectedness of the stock and flow of the different capitals it is the returns on financial capital that will be of primary concern to investors - this though of course being the result of or impacted by the other capitals.

Finally, we fully acknowledge that Integrated Reporting will be an evolutionary process. As such we accept that initially there may be a greater emphasis on qualitative narrative in relation to some of the capitals, this will need to be reinforced with the development of consistent and rigorous metrics in time.

We look forward to seeing companies' attempts to embrace the integrated reporting concept over the coming months and years.

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.*

Paragraphs 1.11-1.12 provides a sensible overview to encourage preparers to follow the framework and will assist users to absorb the information and to make comparisons.

The crucial issue is whether the principles found in bold and italic type throughout the document are themselves sufficient - our sense is that they are although they can be vague in places, although in many cases this is to be expected and expectations will develop as companies experiment and engage with investors - for example in relation to the emphasis on explanations of business models.

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?*

Yes. The aspiration should be to integrate rather than simply combine different types of reports. The ambition is rightly to encourage integrated thinking by preparers - and for that matter investors too.

Reporting should be seen as a dynamic, continuous process rather than just as a retrospective snapshot. Given that, we would welcome some recognition of the importance to endeavour to provide updated information more frequently than annually, for example, through the corporate governance section of the website.

We support the ambition of the Integrated Report eventually becoming the principal document that companies in any given jurisdiction are required to publish/file - the Integrated Report should be the statutory Annual Report in those countries where companies are required to file an Annual Report, Annual Accounts and an Auditor Opinion. The latter should cover both the Integrated (annual) Report and the Accounts. In other jurisdictions it would be the equivalent of the financial statements, auditors' report, MD&A and corporate governance filings. The latter filings may need to continue to be available as supplementary detailed information.

We welcomed the signing of an MOU between the IIRC and IASB - it could be worthwhile exploring further to what degree the IR framework and the guidance for the IASB's Management Commentary could be matched.

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?*

This would be extremely helpful although it would need to be kept up to date as this is a fast changing field and there are number of early stage initiatives. We are aware that other organisations including the International Corporate Governance Network (ICGN) have provided a useful suggested list.

Other

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

We have no further comments.

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 is a helpful model to take forward integration. However, it is important to note that metrics are less well developed for some of the capitals and thus will need to be improved. Subject to this, understanding the stock and flow of the different capitals will be helpful although it needs to be understood that investors will continue to primarily require a satisfactory return on their financial capital – this will of course be impacted by

the other capitals.

Investors would benefit from companies communicating more coherently how they create value and how this value creation is impacted by and impacts on other capitals. Investors are generally focussed on risk-adjusted returns, and wish to understand how the company increases its value (to shareholders) based on all the different capitals mentioned. Importantly this value creation should be presented from the perspective of the primary intended report users – the (current and potential) shareholders and one would not expect all ripple effects to be captured.

We welcome the flexibility provided by the Framework and the encouragement it gives to preparers to consider for themselves their approach to value creation and how the organisation interacts with other stakeholders.

The current model however, may not sufficiently address a company's ability to generate profits and how sustainable its resources are. This would require acknowledging the interaction between the company and the individual capitals. Moreover, it would be useful to require that companies specifically address the value proposition for their end customer.

To be clear, we consider it of vital importance that a company operates responsibly and takes due care of all the capitals in the Framework; likewise stakeholders (other than shareholders) influence business drivers and their availability.

Finally, it is important to emphasise that whilst we wish to see the development of more rigorous metrics for the other capitals, it is unrealistic to expect investors to be content to see returns on other capitals as a substitute for unsatisfactory returns on their financial capital – unless they are confident that they will result in compensatory value creation over the long-term. That said, we caution against artificially monetising the impact of certain capitals; we consider it in most cases implausible to create a mono-causal link between one factor and profit.

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

We have no further comments to make.

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. We would also suggest that there needs to be a clear overarching purpose of the company that makes it unique - this should not be an overly onerous requirement as all companies should be able to describe their chosen business model. However, this will no doubt be much more complex than at first sight and will be a challenge boards to distil their business model and business purpose into language which is meaningful to insightful.

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?

Yes we believe that this is a helpful definition. It will also be helpful to investors to develop quantifiable metrics for some of the outcomes where possible.

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)?

We recognise that integrated reporting will likely be particularly challenging for conglomerates where they may have wholly different business models operating across the group.

Additionally, we would suggest including within 4.22 the concept of systemic risks created by the actions of the organisation and its industry. This is an important component of the idea of a sustainable and resilient business model.

Other

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

We have no further comments.

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?

We agree that materiality should be driven by the assessments of investors as the primary intended report users.

We welcome the acknowledgment that the concept of materiality is complex and will sometimes be a qualitative assessment and about judgement. Factors may be deemed material if they might reasonably be expected to affect investors' decisions about the acquisition and sale of shares or the exercise of their ownership rights and responsibilities.

Issuers cannot be put in conflict with their existing regulatory obligations with regard to materiality. Therefore the IR framework has to be flexible enough to accommodate statutory obligations regarding materiality in different jurisdictions.

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

We strongly agree with the need for conciseness set out in paragraph 3.29 and the reduction of clutter.

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?*

We agree with paragraph 3.30 that an integrated report should include all material matters, both negative and positive, in a balanced way free from material error. We feel that reports should give a prudent, true and fair view. Transparent disclosure will help to demonstrate this whilst boilerplate disclosure will give much less comfort. Robust assurance will help provide credibility in this respect.

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

We have no further comments.

Other

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

We have no further comments.

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 would suggest adding 'competence and experience' to diversity and skills of those charged with governance (4.11) because it is about adding value to the Board.

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. As stated in para. 5.17 those charged with governance have ultimate responsibility for how the organization's strategy, governance, performance and prospects lead to value creation over time. Given that we would expect those charged with governance to provide a statement of compliance with the IR framework. In our view this should be mandatory. Moreover, we would expect the external auditor to perform a consistency check also for the Integrated Report.

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

We have 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?

Assurance is absolutely essential in providing credibility to reporting and giving reassurance to the users of the report. In principle, assurance should cover the entire report but we accept that this may be unrealistic in the earlier phases.

Both assurance and underlying metrics for the different capitals are still evolving and assurance providers will likely need to invest heavily in building up rigorous testing techniques.

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 true and fair view used in financial accounting audit may be helpful in integrated reporting as it seeks to test whether the financial statements adhere to the principle as well as the letter. The users of integrated reports want to be satisfied that they go beyond bare compliance with the rules and the spirit of the rules is being embraced.

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).

We have 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?

As companies produce integrated reports the feedback will provide valuable insights into how the framework should evolve. We certainly expect it to be a work in progress for some time and we look forward to contributing to the development of this concept.

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?*

Three areas where explanatory material would be welcomed are in relation to:

- Linkages between the IR Framework and existing disclosure frameworks;
- A database of good practice examples, not necessarily full reports but components/ sections thereof; and
- Expected involvement of the Board in the process of integrated reporting

Other

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

We have no further comments to make.