

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.

As a general overarching comment we believe this to be a clear, well-written document. We strongly support the principles-based approach adopted in the guidance

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 changes are proposed; these are seen to be a useful and appropriate set of principles

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; this is seen to be a fair and accurate characterization

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?*

ISO 26000 International Standard on Social Responsibility. This guidance standard provides a detailed set of expectations and "international norms of behaviour" derived from authoritative international instruments; these expectations can be used as part of a structured process by organisations to inform the development of indicators. The ISO 26000 bibliography gives a comprehensive listing of the authoritative international instruments used to inform the guidance, while Annex 1 of the standard provides reference to a useful set of additional potential information sources.

Additional information sources to consider include (amongst others) the standards and guidance documents developed, for example, by the Global Reporting Initiative (GRI), the International Auditing and Assurance Standards Board (IAASB), AccountAbility, and the World Business Council for Sustainable Development (WBCSD).

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?*

Yes; in our experience advising companies we have found this approach to the capitals to be a compelling means for fostering a deeper and more integrated understanding of value creation, and for developing an appreciation within organisations of the important contribution of societal issues (human, social and natural capital) on organizational value. We welcome the fact that this approach is one of the "fundamental concepts" that underpins <IR>. We support the document's aim of encouraging organisations to use these broad categories as a benchmark when preparing an integrated report, and to disclose the reasons (if any) as to why it might consider any of the capitals as not

material. Some areas for further refinement are proposed in the response to Q6 below.

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

Some of the definitions of the capital stocks could be further refined:

* The current definition of natural capital fails to sufficiently acknowledge the role of sinks or of ecological processes. A possible refinement of the definition: Natural capital refers to the natural resources (matter and energy) and processes that are needed to maintain life and to produce and deliver goods and services. It includes renewable resources (such as freshwater, fisheries and wood), non-renewable resources (such as mineral deposits), sinks (that absorb, neutralise or recycle wastes) and ecological processes such as climate regulation and disease regulation.

* Social and relationship capital is not comprehensively defined by the examples in the list. Provision should be made, for example, for political issues such as governance structures and the rule of law (whether at a community or national level), as well as for institutionalized systems such as functional banking systems (that are not only financial in value). This is in line with the way companies might account for socio-political risk analysis.

We support inclusion of Figure 4, though have some comments on the accompanying text. An important goal of this diagram is to foster recognition of the relationship and interdependencies between these capital stocks, and in particular to emphasize that manufactured and financial capital stocks are essentially products of, and dependent on, human, social and intellectual capital stocks, which in turn are ultimately products of and dependent on natural capital. Financial and manufactured capital stocks cannot be built systematically at the expense of human, social and natural capital. This understanding is in sharp contrast to the predominant approach to value creation, which tends to focus on building up manufactured and financial capital, while externalizing the impacts on human, social and natural capital. While the interrelationship reflected in this diagram applies at a broader system level, and not necessarily at an organizational level, we believe that an understanding of this interrelationship and these dependencies is critical to achieving the shift in approach to value that the IIRC is seeking to achieve.

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?*

The term business model is defined as "its chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term." (2.26)

The challenge with this definition (and the content elements listed in 4E) is that it may encourage companies to think of or list their inputs, activities, outputs and outcomes in a linear way. Clearly the 'system' refers to how these elements relate to each other to create value. This is what we are looking for. In reality, presenting this dynamic system in a simple, concise way is often extremely challenging, particularly when companies have more than one business model co-existing within the same organisation (4.2.4).

Two options might be useful to consider: firstly, defining the business model in a more open-ended way, thereby leaving it up to companies to decide how they wish to present

their business model; or secondly, focusing overtly on those dynamic aspects of the system.

The dynamic aspects are a mix of elements that determines whether a business model is successful in a given context, or not. These are clearly outlined by Mark Johnson in his book 'Seizing the White Space', and we have found this a very useful starting point in determining materiality. These dynamic elements are: (1) the customer value proposition (the job done by the product or service), (2) the profit formula and (3) the key resources and key relationships needed to do it. There are obvious linkages to the elements listed in the above definition (for example, key resources and relationships would be inputs and/or outputs in the system).

We have found this approach useful because it puts the inputs, activities, outputs and outcomes into the specific categories that speak to the practical functionality of the business model. This provides a better indication of how to prioritise or leverage efforts to create value in a more sustainable way. It offers a hierarchy, focusing on those elements that make the profit formula viable in the present context. It is more analytical and provides a good starting point for assessing those risks and opportunities that are emerging in the changing context.

It may also be useful to include a note in the glossary that explains what is meant by the term 'effect' which is used in the materiality determination process (5B). In particular, the note should explain how the term relates to the inputs, outputs and outcomes referred to in the business model section. It could also be compared to the term 'impact' which has been used in similar analyses.

Additional comment:

The term business model is defined as "its chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term." (2.26)

Key point: This approach to the business model is too all-encompassing. This potentially limits its value as an analytical tool.

When looking at the business model, we have found it useful to strip out those elements that drive the financial value engine. This is not to suggest that other forms of value are less important – rather it is to recognise the complexity of a broader value analysis, and to make it easier by breaking it into logical steps. By focusing analysis on the financial drivers, we have found it easier to find 'the fundamentals of its activities' (2.27).

Core to the financial value is the customer value proposition: the 'job' being done that persuades the customer to hand over a payment. Ultimately, we are looking to reveal a broader stakeholder value proposition. But by starting with the customer value proposition, we are closer to the core of the engine.

The core elements of the business model (based on Mark Johnson) are: the customer value proposition; the profit formula; the key resources and the key relationships. These core elements draw on or affect the capitals in various ways. We suggest that analysis of the impacts (or effects) of the business model on the capitals should be looked at separately and should not form part of the business model itself. They are not the 'working parts' of the model – rather, they are the consequences of the model working.

We will be able to increase or decrease some of the impacts without altering the core elements of the business model. Other impacts will be increased or decreased with significant change to the core elements.

Whether these changes are positive or negative reveals potential risk or opportunities

within the system.

We have found it useful to frame the materiality analysis around four logical questions (which we refer to as the VILROS analysis). These steps are:

Q1: How does your organisation create value?

Q2: What are your impacts and where do you have leverage [to affect change]?

Q3: What are the emerging societal risks & opportunities that impact on value?

Q4: What do your key stakeholders identify as being the most important issues?

The first question seeks to define the core elements of the business model. We have found this to be a good starting point for the analysis. By focusing the business model analysis on those value drivers that are core to financial value creation, it is easier to work out the levers that could enhance value creation overall, as well as the useful directions in which they could be pushed.

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 have a suggested edit to 2.35 and 2.36. Please see below:

2.35 Outcomes are defined as the internal and external impact (positive and negative) on the six capitals resulting from an organization's business activities and outputs. Outcomes encompass:

* Internal (e.g., employee morale and organizational reputation) or external (e.g. contributions to the local economy through employment and taxes) impacts.

* Positive (i.e., result in a net increase in the capitals and thereby create value) or negative (i.e., result in a net decrease in the capitals and thereby diminish or destroy value) impacts.

* Externalities: a cost or benefit incurred by a third party without choice or consent.

2.36 Identifying and describing outcomes, particularly external outcomes, requires organizations to consider and account for the impacts on capitals more broadly than those that are owned or controlled by the organization. For example, it may require disclosure of the effects on capitals up and down the value chain (e.g., carbon emissions caused by products the organization manufactures and labour practices of key suppliers) as well as within the social and environmental systems in which the organization operates (see also Section 5G regarding the reporting boundary). Further, a complete disclosure of impacts on the six capital stocks requires (preferably explicitly) consideration of trade-offs between capitals. For example, between financial capital generated and environmental or social capital degraded.

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)?

While recognising the importance of the document not being prescriptive, it is nevertheless suggested that further clarity could be provided on the disclosure

requirements, particularly for diverse businesses / conglomerates that operate across geographic regions and/or industry sectors. See further the response under Q23 below

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?

We fully support the principle that an integrated report should “provide concise information that is material to assessing the organization’s ability to create value in the short, medium and long term.” We believe that this concept underpins the underlying objective of <IR> and that, if appropriately adopted, will result in annual corporate reports that address many of the shortcomings with existing corporate reports. We support also the definition and explanation provided in 3.23 and 3.24.

We recognize and support the reasoning as to why “an integrated report should be prepared primarily for providers of financial capital”. Our support for this approach is informed by the following considerations:

1) In preparing an effective corporate annual report (and one that addresses many of the shortcomings with current annual reports), we believe that the report should be responsive to the material interests of its particular target audience. To seek to meet the information requests of all stakeholders in one report will result in a report that satisfies the needs of very few (if any) of these stakeholders; hence the understanding (1.18 - 1.20) that there is a role for additional reports. The aim of these additional reports is to provide information of material interest to different stakeholders, in a medium and with language that is appropriate to these different stakeholders.

2) We believe that the responsible and informed providers of financial capital for an organization will have an interest in that organization’s ability to create value in the short, medium and long term; they thus serve as a useful proxy for other individuals and organizations (from which stakeholder category) that have a similar interest in the organization’s capacity to create value over time. This recognition that the report can meet these interests is provided for in the phrasing that the report is aimed “principally” (ie not exclusively) at providers at financial capital.

3) It is important to emphasize that in preparing the integrated report for this target audience, the reporting organization should do so informed by the Guiding Principles and Content Elements contained in this document, even when this would result in the disclosure of information that is not currently being requested by the organization’s target audience. In other words, the fact that the reporting organization might have providers of financial capital who (for example) are interested only in short-term value creation, or who fail to fully appreciate the organization’s dependency on certain capitals, does not take precedence over the principles-based requirements provided in the Framework. Following all of these requirements will assist greatly in addressing aspects

of the flawed understanding of value that arguably permeates the current thinking within many organizations and amongst many providers of capital.

4) In following the requirements in the Framework, the report will necessarily reflect on the extent to which key resources and stakeholder relationships impact on value, and it will provide insight into the quality of its relationships with its key stakeholders, and on how it responds to their legitimate interests and expectations (in so far as these impact on value creation). An effective report will thus be responsive to key stakeholder interests and critical societal issues over the short, medium and long term, even though it is targeted primarily at providers of financial capital. Following the guidance in this document will require most organizations to provide for societal issues to a far greater extent than they are currently doing, including for those issues that might traditionally be seen to be completely external to its activities.

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

In Section 5B, we believe the IIRC should avoid being seen to prescribe an unduly detailed 'how to' process on materiality. We believe that the document should focus on identifying the key principles (as it has done in Section 3D), and leave details on the determination process up to each organisation's own creativity and thinking. Presenting this detailed process implies that there is a neat technical determination of materiality, when in reality this is not the case. Identifying material issues is ultimately determined by informed, responsible managers or executives applying their minds; this is what they should be held to account on. The guidance on materiality should focus on identifying the minimum factors that need to be taken into account in the process, such as the value drivers, the organisation's affects on the capitals, the risks and opportunities arising in the context, and stakeholder perspectives. How companies choose to do this should be up to them.

We welcome inclusion of 5.13 requiring disclosure of the organisation's materiality determination process. This will help in fostering greater accountability and engagement in the process of "senior management and those charged with governance." By being held to account, it is hoped they will be incentivised to apply their minds appropriately.

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?

In seeking to demonstrate the reliability of the integrated report, it is suggested that the report should include:

- * An account of its internal information and data gathering systems and control measures
- * A balanced account of the outcomes of relevant stakeholder engagement processes
- * A description of the materiality determination process
- * Details on the external verification process (scope and findings)
- * The nature of the role of senior management in the process, and their accountability for the outcome of the process

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).

These content elements (A-G) are comprehensive and appropriate. We support the approach of not prescribing a proposed ordering for these content elements (a report structure), and similarly welcome the approach of framing the principles-based guidance in the form of a question for each Content Element. The suggestion (4.5) that reporters disclose the “nature and magnitude of material trade-offs” is problematic as these are almost always impossible to quantify.

The report needs to take care to avoid the use of words like “boilerplate”. It should state things clearly and positively. For example, 4.16 could be rephrased along the lines of: “Information on risks and opportunities must be specific to the organization in question. Lists of general industry risks and opportunities must be avoided. The aim is to enable the end user of the report to apply the information to assess the organization’s current and future exposure and the suitability of actions whether proactive or reactive.”

We suggest that provision be made for the company to define what it understands by the short, medium and long term. (4.5) Their understanding of these timeframes should be briefly explained / validated with reference to the business model. These timescales will differ for different industries.

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?

We support such a requirement. This drives accountability, and encourages the senior leadership to be actively involved in the reporting process, rather than outsourcing this function to corporate affairs, investor relations and/or external consultants.

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 support independent external assurance on the entire report as this will enhance credibility and increase reliability, but recognise that there may be challenges in achieving this in the short term

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.*

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?*

We believe that if properly understood and applied the Framework has the potential to prompt a much needed shift in the corporate and investor understanding of value creation. For this to happen (and to overcome some of the prevalent misconceptions that still exist regarding the intent of <IR>) the Framework will need to be accompanied by a very effective communication and awareness raising campaign, including effective engagement with the business media and the financial sector. It will also require much clearer communication than has happened thus far regarding the nature of the relationship between <IR> and sustainability reporting (including as regards the relationship between the IIRC and initiatives such as the GRI).

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?*

A key aim of the move to <IR> is to prompt a greater appreciation of the contribution of the various capital stocks to organizational value creation. For this potential to be fully

realized we believe that it would be useful to provide additional separate guidance on the financial materiality of (in particular) human, social and natural capital. See for example the recent ACCA document *Is Natural Capital a Material Issue* (<http://www.accaglobal.com/en/research-insights/environmental-accountability/natural-capital.html>)

As noted earlier (response to Q9) additional guidance could be provided on the disclosure requirements relating to the business model (Section 4E), particularly for diverse businesses / conglomerates that operate across geographic regions and/or industry sectors. There may be merit for example in including separate guidance that contains some fictitious worked examples – similar to those provided for the in *Accounting for Sustainability Connected Reporting: A practical guide with worked examples* (<http://www.accountingforsustainability.org/connected-reporting/connected-reporting-a-how-to-guide>)

Other

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