

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:	<input type="text" value="Tim Haywood, Group Finance Director & Head of Sustainability"/>
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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="Interserve Plc."/>
Industry sector:	<input type="text" value="Industrials"/>
Geographical region:	<input type="text" value="Global"/>

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.

Interserve's vision is to redefine the future for people and places. It is one of the world's foremost support services and construction companies, operating in the public and private sectors in the UK and internationally, offering advice, design, construction, equipment and facilities management and front-line services. Interserve is based in the UK and is listed in the FTSE 250 index. The Group employs some 50,000 people worldwide and in 2012 generated gross revenue of £2.3 billion.

As a pilot programme member, Interserve endorses the principles of <IR> and has publicly committed to helping their widespread adoption. Through our SustainAbilities Plan (launched March 2013), we have made a number of detailed commitments which are to be measured through the implementation of four capitals (financial, natural, social and knowledge) which have been tailored to the specific requirements of its business. These correlate closely to the principles and framework of <IR>.

As a UK listed plc, and member of both the FTSE250 and FTSE 4 Good indices, Interserve is committed both to good governance and clear, consistent and meaningful corporate reporting. We believe that the current reporting regime is burdensome and flawed, with excessive prescription leading to a preponderance of overlong and boilerplate reports that do not always properly communicate the salient matters in a concise, understandable and meaningful manner. We believe that the approach adopted by the IIRC, and the proposed <IR> framework, represent a helpful step forward towards the restoration of proper balance in this important area.

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 concept of materiality should be explicitly extended to all requirements. This is probably implied, but there is a risk of excessive narrative if immaterial items are not overtly discouraged.

Some transitional provisions may be helpful (3F), as there may not be prior year information available in early years.

The wording of 4.4 is somewhat confusing, referring both to stand alone and linked <IR>.

The requirement to describe the materiality setting process (4.5) runs the risk of being a boilerplate exercise of little value.

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 analyst community is not ready for, and would not be receptive to, many of the elements of <IR> (eg the capitals framework). While the ambition to take them on this journey is laudable, bringing analyst calls fully within the scope of <IR> is currently impractical.

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?*

The risk of the proposal for a database of indicators, is that this may be seen as the only source of acceptable measures, rather than as a helpful source of ideas. There are many indicators, but the key factor should be their relevance to the company / issue under consideration, not their presence on a pre-determined database of measures.

Other

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

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?*

We agree with the fundamental concepts. We would prefer a greater emphasis on outcomes than on inputs, but recognise the practical difficulties of tracking and measuring outcomes, and the relative simplicity of identifying inputs. We welcome the lack of prescription about what to measure and how to measure it, but anticipate that, for <R> truly to succeed, a non-financial quantification methodology is going to be required by companies to supplement purely narrative disclosure of case studies and trade offs.

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

No further comments

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?*

Should a business model also include some reflection of a company's culture and values, recognising that value is created not just by what is done, but how it is done, and why?

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?*

We agree with the definition.

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)?*

The guidance about revenue generation after initial point of sale (4.22) seems unduly specific in the context of general guidance.

Other

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

There are a number of practical issues to be addressed in trying to measure value creation by reference to stocks of capital (many of which are not owned by the organisation, and are almost infeasibly large in scope). A focus on the company-generated flows is probably more workable, and more understandable, at least in early years.

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 the context of primary users who may not be fully aware of the wider implications of the capitals framework, and who are potentially over-focused on purely short-term and financial considerations, there is a danger that the definition of materiality (3.23) may itself become short-term and financially focussed. This would be to miss the entire point of <IR>. Materiality should be more explicitly linked to the impacts of an issue on the wider <IR> framework, to ensure that this is not the case. <IR> preparers should not be overly concerned that primary users may not initially appreciate the significance of an issue that they, the preparers, consider material.

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

No further comments.

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?

An element of external verification will be required to validate the reliability of an <IR>, but not all statements will be verifiable, and these, if honestly prepared and presented, should not be dismissed as of less value than the verifiable ones.

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

No further comments.

Other

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

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).*

There is a risk of a proliferation of standard statements about macro economic, global environmental, and general societal issues arising from the guidance re the external environment (4.9). This could detract from significant company-specific issues, even though it may provide some relevant context.

The guidance around governance also runs the risk of excessive length or duplication, unless carefully calibrated (eg the remuneration and corporate governance reports in the Annual Report deals at great length with many of the issues raised in 4.11). The specific remuneration related guidance in 4.12 looks particularly troublesome in this regard.

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?*

There should not be a statement from those charged with governance acknowledging their responsibility for the statement: it is implicit in the publication of the report, would add a further boilerplate statement, will not change behaviours, and would not be actionable to any meaningful degree.

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

The statement about " the governance body charged with oversight of <IR> "(5.18), could be taken to imply that this may not be the same body as the governance body charged with oversight of the company and its other corporate reporting, ie the board: surely they should be one and the same?

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?

Credibility.

See comments in Q13 - An element of external verification will be required to validate the reliability of an <IR>, but not all statements will be verifiable, and these, if honestly prepared and presented, should not be dismissed as of less value than the verifiable ones.

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 costs of external verification should not be allowed to inhibit the wider implementation of <IR>, and so a non-prescriptive approach to this should be taken, at least in the early stages, with a market consensus emerging over time as to what constitutes best practice for verification.

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).

The section on time frames (5F) does not appear to add anything material. It is not clear from 5I whether a hard copy <IR> will still be required, or whether the digital versions referred to would suffice.

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?*

Subject to some of the clarifications and minor caveats above, we believe that the framework represents a good and useable step in the evolution of corporate reporting. For companies less advanced in their thinking about the capitals, there is a good deal of work involved, and a partial adoption of some of the principles behind the framework may be a pragmatic first step. This should be encouraged.

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?*

Rather than provide more explanatory material, the IIRC could retain its current light-touch, low prescription approach, and instead focus on: the dissemination of best practice; highlighting the benefits of <IR> to companies and investors; and a move towards getting <IR> permissible as a replacement for some existing statutory reporting.

Other

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

No further comments.

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