ICMM
International Council
on Mining & Metals

July 2013

ICMM Submission in response to the Consultation Draft of the International Integrated Reporting Framework

Overview

The International Council on Mining and Metals (ICMM) was established in 2001 to act as a catalyst for performance improvement in the mining and metals industry. We bring together 22 mining and metals companies as well as 35 national and regional mining associations and global commodity associations to strengthen the contribution of mining, minerals and metals to sustainable development.

ICMM is a membership organization, led by the CEOs of many of the world's largest mining and metals companies and associations. ICMM is committed to driving social, economic and environmental progress. We serve as an agent for change and continual improvement.

ICMM welcomes this opportunity to comment on the Consultation Draft of the International Integrated Reporting (<IR>) Framework which was released for public comment in April 2013. We acknowledge the demonstrable leadership of the IIRC in articulating a principles-based approach to <IR> and to stimulating a cross-sectoral debate on the future of <IR>.

While two of ICMM's members are involved in the <IR> pilot program (AngloGold Ashanti and Gold Fields), ICMM has no formal involvement in the process on behalf of our members. We have not solicited the views of members on the <IR> Framework, so this submission reflects the views of the ICMM secretariat, which were derived without reference to the members, and should not be interpreted as the stated policy of ICMM. We have used the consultation questions and supporting narrative provided by the IIRC as a basis for ICMM's response. This is identified in pages 2-6 of this submission as blue text and the ICMM response to specific questions is included in black.

We wish the IIRC every success as it considers the feedback from the public consultation process and moves forward with refining the <IR> Framework. If it is helpful to further discuss or clarify any of our comments, please contact Aidan Davy (aidan.davy@icmm.com), Deputy President of the ICMM.

ICMM Secretariat, July 2013

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 principles-based requirements are broad and inclusive and address most aspects of the International Integrated Reporting Framework (<IR> Framework) – with the notable exceptions of chapters 2 (Fundamental Concepts) and 5 (Preparation and Presentation). The requirement in paragraph 1.11 is for *"any communication purporting to be in accordance with the framework to apply all of the principles-based requirements"* unless data reliability, legal prohibitions or competitive harm apply. Rather than seek to limit these principles at this stage of the evolution of integrated reporting, ICMM's view is that reporters should be **encouraged** to apply all of the principles-based requirements, but given the latitude to signal where they have had practical difficulties in doing so. This could either be included in an integrated report or separately communicated to the IIRC. An all-or-nothing mandatory approach at this stage of the development of the <IR> Framework might be a significant deterrent to uptake and experimentation on how best to deliver integrated thinking and reporting by companies.

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 (paragraph 1.18-1.20).

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

While the ambition may be for the <IR> process to be continuously applied to investor relations and engagement (including analyst calls), this will inevitably involve an evolutionary progression as opposed to an overnight shift. This should be reflected in the <IR> Framework.

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?

At a minimum, the GRI's indicator protocols should be referenced. However, of potentially greater value would be a compilation of the various overlapping reporting approaches that exist. Providing such a database would demonstrate that the IIRC is aware of and building from a powerful and growing body of knowledge that is, through synthesis, being strengthened by the IIRC approach.

Other

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

The concept of "value creation" is central to <IR> and should be clarified in terms of how it is used within the <IR> Framework. In particular, the assessment of "value" itself is value-driven: those with different cultural values will assess 'value' differently. How does integrated reporting suggest this be addressed?

Further, section 1.8 states that *"Those providers of financial capital who take a long term view of an organization's continuation and performance are particularly likely to benefit from <IR>. Their interests are likely to align over time with the interests of other stakeholders because both are* *focused on the creation of value in the short, medium and long term."* This is a logical fallacy. The alignment will come not because of a recognition of short, medium, or long terms but because values become synchronized. This is captured in Ralph Dahrendorf's concept of "overlapping consensus" that is described in the law literature.

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?

The capitals model is a logical extension of the work initiated by Dixon, Hamilton and others in the World Bank in the mid-1990's on expanding the measures of wealth, adapted to a private sector context. The addition of 'intellectual capital' and 'social and relationship capital' are useful additions to the four that have been debated for almost two decades. However, they are also perhaps hardest to quantify and measure. Further guidance on the practical application of the capitals model would be of value. In addition, a discussion of the limitations of this approach would strengthen the consultation draft. Such a discussion may seem counter-intuitive, but would demonstrate that other approaches have been considered and insights that they generate have been used.

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

Given some of the complexities related to quantification and measurement of the capitals outlined in the answer to question 5 (and recognising the limits placed on the use of the capitals model within the <IR> Framework in paragraphs 2.19-2.20, and 2.25), this is another area where practice is likely to evolve considerably over time – and where first time <IR> reporters may well experience difficulty in drawing boundaries. This is especially true as despite the restrictions on the capitals model outlined in paragraphs 2.19-2.20, and 2.25, its importance is underscored in other places such as paragraphs 2.36 and 4.5.

Section 2.24 addresses quantitative and qualitative information. It equates qualitative information to narrative. Our view is that this is incorrect and wrongly characterizes the capturing of qualitative insights – sometimes which is undertaking using very numerate techniques. A fuller treatment of the quantitative-qualitative that includes clarification of the objective – subjective dipole should be included. This task is not trivial. However, it is critical because of the importance of qualitative insight – not as a secondary or less-powerful form of insight than quantitative insight, but as an essential aspect of assessing progress and performance.

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 definition seems to be missing something on the nature of the relationships that the business model embodies or relies upon. In addition, while we are otherwise in broad agreement with the definition, we believe that it is at odds with the way many within the investment community reward short-term returns.

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?
The definition of outcomes is inclusive and adequate. However, the caveat mentioned in our response to question 7 above also applies here.

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 (Section 4E).
Section 4E includes a significant emphasis on resilience. Given the significance of this factor to investors, the guidance in paragraph 4.22 and 4.23 will need to be supplemented over time. This will also be an area where a significant degree of experimentation is likely (and desirable).

Other
10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.
The section on Value Creation (2D) is both thoughtful and thought-provoking. It is also central to understanding many of the guiding principles in section 3. However, this section could usefully acknowledge that private sector entities create societal as well as shareholder value.

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?
Conceptually, the approach to materiality as outlined is sound. However, our sense is that there is increasing convergence between the perspectives of a wider set of stakeholders and the providers of capital on what is material (at least those providers of capital who are likely to be interested in <IR>). Even if the definition is not changed at this stage of the <IR> Framework, it would be worthwhile acknowledging this increasing alignment.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).
Our only other comment is that materiality should not simply be applied at a corporate level – but that processes for identifying material issues should ensure strong links between operational and corporate level perspectives on materiality.

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 believe that independent external assurance has been an important factor in underscoring the reliability of financial and sustainability reports, and may also become important in the context of <IR> over time. However, at this stage, we consider that it is premature to be prescriptive about the scope of <IR> assurance (and whether limited or reasonable assurance would suffice).

14. Please provide any other comments you have about Section 3E.
Our only other comment relates to completeness and paragraph 3.36. In determining materiality at a sectoral level, organisations such as ICMM can play an important role

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.
None

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).
While we agree that the *"nature and magnitude of the material trade-offs that influence value creation over time"* is an important consideration (as referenced in paragraph 4.5 and 2.25), we also believe that this is a potentially complex matter to report on. For that reason, as outlined in our response to question 1, ICMM's view is that reporters should be **encouraged** to apply all of the principles-based requirements, but given the latitude to signal where they have had practical difficulties in doing so. This underscores the importance of flexible as opposed to prescriptive approaches at this stage.

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?
While such a statement is in principle desirable, we consider it to be premature at this stage, given that the liabilities of officers and directors for some of the information to be included in an integrated report may be unclear and will vary across legal and regulatory boundaries.

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).
None.

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?
As noted above, we believe that independent external assurance has been an important factor in underscoring the reliability of financial and sustainability reports, and may also become important in the context of <IR> over time. However, at this stage, we consider that it is premature to be prescriptive about the scope of <IR> assurance (and whether limited or reasonable assurance would suffice).

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.
None.

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 discussion of reporting boundaries in paragraphs 5.25 – 5.27 is potentially confusing. We are unclear why the reporting boundaries for financial and integrated reporting might differ.

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?
While we have made a number of suggestions where further guidance may be appropriate in the response to preceding questions, on balance the <IR> Framework represents a good basis for organisations to proceed with <IR>. However, we also believe that it is far too early to set the expectations for <IR> prescriptively and that the experience of reporting companies with applying the framework should be reviewed in light of experience after a number of years.

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. The application of the capitals model
2. The nature and magnitude of the material trade-offs that influence value creation
3. The business model and especially the concept of resilience

Other
24. Please provide any other comments not already addressed by responses to Questions 1-23.
Reporting in accordance with the <IR> framework represents a major shift for reporting companies and it currently lacks sufficient practical detail about *how* companies can make this transition. It is also not clear how application of the <IR> framework will result in more comparable reports, which is one of the stated intents (see paragraph 1.14). A related matter concerns the extent to which an integrated report would add to or substitute for other reporting requirements. Paragraph 1.5 states an integrated report *"draws together other reporting strands"*, yet paragraph 1.18 signals that it will likely add to rather than replace reporting obligations – at least in the short term ("Organizations may provide additional reports and communications (e.g., financial statements and sustainability reports) for compliance purposes or to satisfy the particular information needs of a range of stakeholders"). This runs the risk of creating an additional layer of disclosures and reporting obligations and is something that we encourage IIRC to further clarify.

This also raises the more fundamental consideration of the benefits of <IR> and the target audiences for integrated reports. The <IR> Framework clearly states that the providers of capital are the primary intended report users. However, ICMM's interaction with investors at a range of levels has yet to demonstrate a strong appetite or demand from within the sector for <IR>. At present, <IR> is seen by many within (and beyond) the investment community as combining financial reporting with light-touch sustainability reporting, which is clearly not the ambition of the <IR> Framework. We recognise the potential benefit of integrated thinking and reporting to investors, but if reporting organisations are to make the investment in time and effort to shift to <IR>, the IIRC needs to demonstrate broad support from within the investment community for <IR> as articulated within the <IR> Framework.

Lastly, the consultation draft does not explicitly state that an integrated report should be fundamentally a tool to enhance decision-making of a company's leadership and by investors – and understood as such by companies who opt for this approach. Use as a communication tool or in public relations exercises should be a secondary or even tertiary aim.