

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.

For Black Sun, Integrated Reporting is simply good reporting, and is a direct result of integrated thinking within a business. Some of the best practice reporters are already running their businesses - and therefore reporting on their businesses - in an integrated way.

Integrated Reporting as a formal approach is fairly new to companies and there is some concern around what this means for them in practice. We therefore welcome a Framework to outline the key principles reporters should consider at various stages of their journey. The IIRC's <IR> Framework will be most effective by being as adaptable as possible across regions, sectors and business models, whilst providing practical examples to support reporters in understanding possible practical applications of the Framework.

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.*

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?*

We believe that good Integrated Reporting will require companies to consider their key messages and how they are delivered to the right stakeholders across their reporting suite and range of channels. We see the Integrated Report as part of the suite of reporting, and as having a primary audience - investors - in mind.

Currently the Framework outlines the scope of Integrated Reporting in point 1.18, but it doesn't define the scope of the actual Framework - is it a theoretical document about the principles of Integrated Reporting, or is it guidelines for producing an Integrated Report? It could be helpful to clarify which elements in the Framework are aimed at producing an Integrated Report, and which are equally applicable to a company's approach to wider Integrated Reporting.

In addition, we believe that the Framework should complement – and not duplicate – other regulatory standards. This would mean that the demands of the Framework need to be flexible enough that companies can interpret and apply the Framework within the boundaries of their reporting jurisdictions requirements. This would be preferable to a prescriptive Framework which would define 'how' and 'what' exactly needs to be reported.

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?*

Other

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

A business must be managed in an integrated way in order to successfully produce an Integrated Report. The IIRC might consider whether the Framework should acknowledge the connection between integrated thinking and the integrated reporting process. Our experience from working with clients is that as thinking and reporting develop they push each other on. For example reporting helps to facilitate and drive integrated thinking and integrated thinking pushes reporting. Providing this context could help companies to understand that Integrated Reporting is a journey.

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 principles of 'capitals' works well, as ultimately it broadens the discussions which companies can have. The Framework provides clear descriptors of what these capitals could encompass and while different sectors and regions may use different terminologies, this provides a basis for companies to report.

We see the importance of discussing inputs as part of the overall value creation story for a business, however it might be tempting for companies to take the capitals approach prescriptively and to feel that they must use this terminology, and also that they must include every capital. Part of this temptation comes from the emphasis on the diagrams (Figure 2 and 3, see response to Question 6 below). It might also be helpful to move the 'Role of the capitals in the Framework' information forward to sit before 'Categories and descriptions of the capitals' to ensure readers are provided with the context before they get into the detail. It may also be worth including in the explanation in the 'Role of the capitals in the Framework' to the points around materiality, and how businesses should talk about their capitals, or equivalent terminology, only in terms of what is relevant to their business model.

The terminology around capitals may be new for some companies, and could also cause concern that stakeholders will find it difficult to tackle new language - for instance, they may have gotten used to resources as terminology. It may therefore be beneficial to acknowledge that the concept of capitals is a relatively new concept for many companies and that it will continue to evolve as time goes on. Our research of the FTSE 100 Annual Reports certainly supports the idea that these discussions are evolving, as this year 88% of companies have provided some discussion of 'capitals', up from 74% last year. This demonstrates the increasingly important role of the capitals in helping to provide a more holistic insight into the business.

Separately, it is worth noting that some businesses may be concerned about the commercial sensitivity around disclosing the availability, quality and affordability of certain capitals.

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

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?*

We have seen an increasing number of companies embrace the disclosure of the business models in the UK. From our annual research on the Annual Reports of the FTSE 100 we have seen the number of companies providing a detailed or very detailed insight into the company business model rise to 53% this year, up from only 12% three years ago. While this upward trend is encouraging, we may need to guard against businesses who may be tempted to try and map the business model diagram used in the Framework to their own businesses and find that it isn't fit for purpose, rather than focusing on applying it in principle.

In support of the IIRC's definition for the business model – which links a company's business model and a company's capitals – our annual research also shows that the number of companies making this link has increased to 42% this year, up from only 26% last year. It appears that companies are increasingly recognising the need to make these connections in order to provide a complete picture of their businesses.

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 understand the benefit of outlining the key 'capital' inputs a business calls upon to do its business, how these are channeled through the business model, the outputs and outcomes that are then produced, and so on back through the cycle. However, in the Figure 3 diagram, the business model is demonstrated as more of a linear process, rather than a cyclical one. Outcomes could be identified at any stage in the process and a linear model doesn't reflect this. In addition, the IIRC may wish to make it clear how far the Framework wants companies go in terms of defining outcomes. There is a potential for this to be quite broad at present.

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)?*

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?

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

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?

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).

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?*

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?*

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?*

At the moment, there isn't clarity around what the IIRC considers to be a 'good' Integrated Report. While we recognise that there is a database of examples, reporters would benefit from practical examples within the Framework from companies from the Pilot Programme and companies that are good reporters to provide a basis for what best practice means going forward. This will also provide a clearer idea for reporters of how much work is to be done. There is a danger with a small number of examples that companies will see these as prescriptive models to follow, so if an example or two could be incorporated for each element of the Framework into the final Framework document, with the context from the featured company to support this, this could be most effective. Over time, examples of overall good reports would be helpful as well for the bigger

picture.

Positively we have seen that for some companies, engaging in internal discussion around Integrated Reporting has highlighted the lack of integrated thinking and stirs up more strategic thinking going forward. In particular, the Framework could be useful as a catalyst for discussion and driving internal change - in particular, around the business model. We feel that companies need to go through this process as part of the move toward Integrated Reporting. The Framework could acknowledge that companies will be on different stages of the journey and possibly provide an idea of what those stages might look like. The Framework would also benefit from being more web-based and interactive, e.g .video case studies.

We feel that if the Framework is more clearly a guidance document, companies might see it as a reference tool, rather than try to use the document prescriptively.

Lastly, good practice moves forward by demonstrating what good looks like. A case study from a company that had a positive response from investors would add a great deal of credibility for internal buy-in. This would demonstrate how including this information reduces risk for investors and demonstrates the steps companies are taking to deliver a strategy for the long term.

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?

Other

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