

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.

Montreux was an official launch location of the Draft Consultative Framework. This took place during the WBCSD's Liaison Delegate Meeting where 400+ people representing 150 global businesses were informed of the framework by Peter Bakker (WBCSD President and IIRC Deputy Chairman).

At the request of the IIRC participants to the WBCSD Liaison Delegate Meeting were invited to join sessions over 2 days on 17th and 18th April to a) get information on the framework and b) provide initial feedback to the IIRC. The sessions were led by Ms Lois Guthrie in her capacity as Technical Director of IIRC. The session focused on getting feedback was attended by 23 companies: ABB, Akzo Nobel, BASF, CLP Holdings, Deloitte, DuPont, Eni, Ernst & Young, Evonik, Fibria, Hitachi, Honda, Komatsu, Mitsubishi Chemical Holdings, Phillips, PwC, Siemens, SGS, Solvay, Syngenta, Toyota, Vale and Volkswagen.

General points raised during this session include:

1. Expectation gap/implementation – Delegates were asked whether the Framework is what they were expecting. Many delegates said they perceived a big gap between what they were expecting and what the Framework says. Many were expecting more prescription/rules and were wondering how to approach implementation of IR. One person said that implementation is going to be difficult because every company is at a different stage. Someone suggested that IIRC could produce guidance on where to start with IR if you are at the beginning of the so-called journey by illustrating for example how companies are putting these principles in practice.

2. Context for <IR> – Participants are not fully aware of the rationale and context for IR. This is true even for representatives of businesses in the IR Pilot programme. It is recommended that the IIRC should include a statement about the context and rationale for IR at the beginning of the document. Particularly the demand and use of IR by the target users, Investors. The link to improved risk management, better internal decisions and opportunity for value creation through IR should be better articulated for example.

3. Definitions, definitions, definitions! The terms “issue”, “matter”, “components” are (a) not defined and (b) used interchangeably. For example “matters” used in paragraph 5.3 and “components” used in paragraph 3.7. The framework should use consistent and defined (and preferably simple) terms.

4. Language – English-speaking delegates said that they found the language of the framework strange and complex and they were not sure how non-native speakers would cope with the language. This is consistent with feedback from French, Spanish and Japanese speakers who also found the translation not consistent with the English version. Many participants did not like the use of the term :Story: in the context of corporate reporting to an investor specific audience. Story could be replaced by emphasizing the need for context around metrics to fully grasp the impact of a business activity on the capitals (“context-based” metrics).

5 Paragraph 4.5 – at various meetings, participants commented that paragraph 4.5 should be right at the start 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.*

No additional Principles Based Requirements were offered, neither were any recommended for removal.

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?*

- i. Members agreed that connectivity is the thing that is most unique and different about integrated reporting compared with other forms of reporting and management practices (eg: management commentary and certain regulatory requirements). It was described by one contributor as “the most significant driver of the whole process of Integrated Reporting” and there were no dissenting voices.
- ii. The language of “connectivity” in the framework is fine and is understood.
- iii. The practical benefit of connectivity in getting people together, breaking down silos, working together etc is understood and accepted by business;
- iv. The link between integrated reporting and other types of reporting causes debate e.g. GRI, pronouncement from the EU, management commentary, existing legal requirements etc. Delegates concluded that “if you distill out the requirements of the IR Framework, leading companies are already doing <IR>” but not in the concise standalone communication based on the capitals as required under the draft IR framework.

Some companies commented that they are already reporting on all or many of the content elements and elements of the guiding principles and asked what new or different expectations are raised by IR. Some participants felt that IR overlapped with ISO 13001 and 26000. Delegates also felt that some order needs to be brought to the current state of reporting and wondered whether IFC, the World Bank or the Group of Friends of paragraph 47 could assist in achieving this. The link with sustainability activity and reporting needs to be made clear as IR could apply to all aspects of sustainability.

In addition, some suggested a diagram illustrating how the Framework connects to other types / channels of information currently used by companies when communicating to investors would be useful. This would help position the Framework principles and requirements in relation to current vehicles used to reach out to this audience.

- v. However, it seems wrong to “bury” connectivity in a reporting framework. Some contributors identified connectivity as a governance responsibility
- vi. Participants felt that the language of trade-offs is not quite right and should be expressed as “dilemmas” or dealing with conflicting targets.

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?*

- a) SASB
- b) Industry Federations / Bodies that have developed standards such as:
 - I) The Marine Stewardship Council,
 - II) The Forestry Stewardship Council,
 - III) The Alliance for Water Stewardship
- c) GHG Protocol and other WBCSD tools: see <http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=15700&NoSearchContextKey=true>
- d) Carbon Disclosure Project,
- e) Grenelle II Act (France)

Other

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

Providers of financial capital – Workshop participants described providers of financial capital, the primary intended audience of an Integrated Report, as a “redundant” audience. There is a general feeling that a company should determine the audience for whom an integrated report is written. The audience should be determined by agreeing with internal and external stakeholders what is in the octopus diagram and how that affects what is material and should therefore be reported. Several participants said that they don’t think providers of financial capital read corporate reports in general and stressed that in order for IR to work, the audience need to want it. One view was expressed that IR is actually about integrated risk management and that if it was presented in that way, investors might be more interested. At another event an investor said “the capitals inform assessments about risk”. “Periodic” needs to be better defined.

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?*

Much support was expressed for the capitals concept. However, it was noted that other organizations have tried to encourage the capitals approach in the past (eg: Forum for the Future and the Sigma Project) and some people asked what it is that IIRC intends to do to ensure that the concept does not fail to get traction this time.

The diagram seems to be universally loved!

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?*

Multiple business models - Many companies have multiple business models, how should they deal with that? The definition of business models should reflect the fact that many businesses use several business models for businesses that have diverse business lines.

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?*

Minimum requirements - Delegates said that they would appreciate some guidance on how to focus and confine a report to what is really required to make IR work. For example someone said that they have 17 units but only 2 – 3 might be impacted by a particular type of capital. Someone else asked why they should report on a certain form of capital (eg; water) when they know that there is an overcapacity in the region in which they operate. There was a discussion about whether reporting was actually required on inventory or impact – that is, even where resources are abundant in one area, a detrimental impact might arise in another area. What is the minimum that should be reported in these circumstances?

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.*

The definition of value creation is not universally understood and many participants feel that demonstrating net value creation / destruction is impossible to articulate given some capitals can be monetized/quantified and others are qualitative. Guidance on how to assess impacts on capitals was called for (qualitative, quantitative, monetization). A good place to start could be the WBCSD's guide to Corporate Ecosystem Valuation. Paragraph 2.42 is not helpful.

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?*

i. The Participants considered the June 2013 discussion paper from COSO, which seeks to embed sustainability risk within the existing COSO ERM framework. It is agreed that companies must take long term sustainability issues into account in assessing risk. Some contributors were of the view that the materiality determination process described in the framework is actually a risk assessment process. And this is an issue for integrated reporting given that businesses currently are mandated by corporate law, listing requirements and / or corporate governance codes to disclose risk management processes and risks in existing corporate reporting therefore materiality needs to be defined differently to risk management.

ii. There was a comment that the description of materiality in the Framework reflected US thinking rather than European thinking.

iii. Notwithstanding the comment above, delegates seemed very positive on the work that SASB is doing on materiality and favoured the sector approach SASB is taking.

iv. One commentator felt strongly that referring to the “likelihood” of things happening (or not) is unhelpful as many risks are unlikely over normal business timescales.

v. An alternative materiality determination process was proposed that would be based on:

1. Dependency of capital as input for product or service offering
2. Impact of output (product, service, by-product and waste) on the capitals

These are exclusive and not plotted on a xy axis.

vi. Some delegates thought that the definition of “short, medium and long term” would need to be more precise, including investor definitions of these timescales in order to determine materiality. One delegate pointed to the fact that mandatory reporting on risk in Germany is short term. Some sustainability type issues threaten a company’s ability to create value but are not material according to the IIRC’s definition because their “likelihood” is beyond the timescales covered by many materiality determination processes.

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

Participants challenged the requirement for organizations to state whether they regard a capital as immaterial. They do not think this is realistic because, first, all capitals are material to someone – one person said “none of the capitals can be immaterial over time. Also, they did not think that any organization would want to declare that a particular capital is immaterial – in fact they said that “forcing a negative, forces a positive” and felt that companies should report on ALL of the capitals.

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?

The Board should be responsible and this responsibility should be confirmed

The Board should describe the control processes and mechanisms used to ensure accurate and reliable disclosure

The <IR> framework should use the “True and Fair” doctrine in this guiding principle ie the disclosures made in an Integrated Report are free from material misstatement. It is not known why the evolution of corporate reporting needs to dispense with language and terminology universally used today and mandated by law in many locations and in the EU Transparency Directive.

The IIRC needs to acknowledge existing standards used to ensure reliability of existing corporate reports and mandate that national standards expected today in corporate reporting are used in Integrated Reporting. This is consistent with the evolution of corporate reporting and not softening the language and importance of internal control for integrated reporting

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.

Balance between rules and principles and between global and sector based approaches

a. Many delegates said that there was a need for “moderate” rules to help them comply with the principles in the <IR> Framework.

b. Many delegates said that there was a need for sector supplements to the IR Framework and expressed the view that “you can’t have rules that are global”.

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).

Paragraph 4.5 – at various meetings, during the WBCSD's meeting many participants commented that paragraph 4.5 should be right at the start of the Framework.

Content elements – People liked the requirements being expressed as questions.

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 See answer to question 13

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?*

Assurance should be provided on the content of the whole report and over the controls in place to ensure accuracy.

Assurance should also be given over the assumptions and their realism over the future oriented information if any is provided.

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?*

Integrated thinking is one of the main drivers for integrated reporting. This was reflected by participants who said that the strength of integrated reporting is in the process and the thinking, not in the reporting. Many corporate representatives are keen to use <IR> to break down internal silos and another audience suggested that the IIRC should do more to encourage <IR> "champions" within organizations other than from the sustainability department. One delegate at an event said that the audit committee was his biggest ally in <IR>.

Reporting or process and action? During the feedback session the majority of participation felt that to focus on reporting was almost to get "the tail to wag the dog". People said that it was as if <IR> was approaching change from the back end rather than the front end. People said that the model presented in the <IR> Framework would be more useful if the "reporting word" were taken out of it and the model were used for defining internal processes and engagement, both external and internal. They felt that the IR is not a reporting framework but a "doing" framework and that the process rather than the reporting should be mandated. Someone said "the doing should be done by the right people doing the right thing and the inevitable output will be an integrated report". Whilst agreeing with this, one person said that <IR> should mandate what organizations should do, for example, use the capitals for their operations but without depleting them over the long term. The participants liked the prospect of IIRC mandating a process that serves the public interest.

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 paper on internal control over integrating reporting

A paper on value with a focus on how to report value creation

A paper on connectivity with practical examples

Other

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