

CONSULTATION DRAFT OF THE INTERNATIONAL <IR> FRAMEWORK

- 1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.**

We do not think it is feasible or appropriate for a company to report on the quality of its relationships with key stakeholders or its responsiveness to their various needs. We think that 'quality' should be removed as it is too subjective a concept and not appropriate for inclusion in a guiding principle.

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

With the current burden of reporting borne by financial institutions, we do not think it is reasonable to expect companies to produce separate integrated reports. However, given the detailed statutory and regulatory framework which is applied to banks, and the volume of required disclosures, it will be difficult to integrate reporting in full. We therefore expect to be able to apply the principles of integrated reporting to part of our external reporting only.

- 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?**

We think that an online database would be useful but the IIRC should be careful not to create the impression that it is passing judgement over the work of others. The database should be assembled and presented neutrally.

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

No further comments.

- 5. Do you agree with this approach to the capitals?**

The six capitals provide management with a useful benchmark for the consideration of value creation, but structuring a report around them may not be possible given existing statutory and regulatory disclosure requirements, such as those incorporated in the Department of Business, Innovation and Skills' proposals to introduce a Strategic Report. For financial institutions, for example, financial capital is very important in the short to medium term, but reputation and the quality of the business model are essential to the long-term sustainability of the business. So while the capitals describe clearly the themes, they may not lend themselves to be adopted as headings in structuring an integrated report.

We would also suggest that the distinction between human and social capital is blurred, and should be looked at from a practical perspective.

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

The detailed analysis of the capitals required of reporters in this section is, if followed to the letter, likely to produce lengthy disclosures which will be incompatible with the desire for integrated reports to be concise.

7. Do you agree with this definition of business model?

We agree with the inclusion of 'inputs', 'business activities' and 'outputs' in the definition of business models. However, we suggest that it would be more appropriate to treat 'outcomes' as the result or consequence of the operation of the business model, rather than an intrinsic part of it.

8. Do you agree with the definition of outcomes?

Yes, though companies may struggle (or be unwilling) to meet the spirit of the framework in extending the concept of outcomes beyond the immediate and easily controllable to the sort of examples provided in paragraph 2.36. Expecting companies to make comments about their supply chain, for example, may be demanding, though we believe that there are examples of good practice in existence.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Contents Elements Chapter of the Framework (Section 4E)

Section 2C says nothing about the regulatory environment in which a company operates. This, of course, can have a major impact on the business model. Examples of industries to which this could apply include utilities, pharmaceuticals, oil and gas and, of course, financial services.

Section 4E requires companies to explain the extent to which their business model is sustainable in the short, medium and long term. We would argue that that judgement is the responsibility of investors, based on the information provided by companies, and not for companies to provide. It is unlikely many companies will wish to include in their annual report a statement to the effect that their business model is not sustainable.

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

(2D) The framework is surprisingly vague on how companies should compute value and on how users of an integrated report should assess it, given that value creation is at the heart of integrated reporting. Value created in the form of financial returns to providers of financial capital (2,37) is a familiar concept, but qualifying it in the form of 'positive or negative effects on other capitals and other stakeholders' introduces a degree of subjectivity which is virtually impossible to quantify. Paragraph 2.42 refers to 'other forms of value that the

organisation creates' without providing any guidance over how that value may be computed. It could be argued that it is up to management to explain how they value the less intangible aspects of their operation, but we expect many preparers and users of integrated reports would welcome guidance on how the various capitals might be valued.

11. Do you agree with this approach to materiality? If not how would you change it?

The definition of materiality on page 2 differs from that provided in Section 3D, and should be revised – we do not think materiality can or should be determined by reference to assessments made by intended report users. It has to be the responsibility of management to decide how to apply materiality. We agree that basing materiality on the extent to which an event or amount might influence the actions of a user of the accounts is appropriate.

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

No further comments

13. How should the reliability of an integrated report be demonstrated?

We do not think that 'appropriate stakeholder engagement' will play a role in affecting the reliability of information included in an integrated report. As stated in paragraph 3.32, senior management and those charged with governance exercise judgement in deciding whether information is reliable.

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

We agree that an integrated report should be balanced and should, as far as possible, avoid material error. However, we do not think it is realistic to expect an integrated report to achieve the degree of balance described in paragraph 3.33. Rather than extending existing requirements, it would be preferable for the Framework to record that 'fair, balanced and understandable' forms an acceptable basis for preparing an integrated report.

The problem with requiring an integrated report to include 'all material information' (paragraph 3.36) is determining what information is material to whom. Different stakeholders have different interests. There is a degree of inconsistency in stating that an integrated report is primarily designed to meet the needs of providers of financial capital (1.6) while requiring all material information be disclosed, with the implication that 'all' encompasses a wide range of stakeholders.

We would suggest that paragraphs 3.40 (which seems to place responsibility for users making sub-optimal decisions on account preparers) and 3.41 (which lectures management on how to make decisions) do not belong in the Framework.

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

(3.51) Achieving consistency with other organisations is clearly a desirable goal, and companies should be encouraged to comply with industry norms. However, companies' first priority will be to report information which is relevant to their operations. We think that companies will be reluctant to publish benchmark data.

16. Please provide any other comments you have about Chapter 4 that have not already been addressed by your responses above

We support the Contents Elements as described in the Framework. With regard to Governance, we think the Framework should acknowledge the role that regulatory requirements play in influencing the design of governance structures in many industries.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report?

We do not agree with the assertion in paragraph 5.18 that the integrated report should identify the governance body with responsibility for overseeing IR as, for many companies, there may not be a governance body. Ultimate governance rests with the Board of Directors, and their responsibilities are already described in Directors' Responsibility Statements.

Similarly, we do not think it is necessary for companies to record that a group of individuals or a committee have 'applied their collective mind' to producing an integrated report, any more than Finance departments would certify that they had applied their collective mind to producing a set of Financial Statements.

We do think companies should be encouraged to describe the internal process by which their integrated report is attested. However, we see problems with requiring attestation by external bodies, particularly where the document is integrated. In that case, the auditors should be expected to cover such issues in their audit report.

18. Please provide any other comments you have about the involvement of those charged with governance.

We have no further comments.

19. If assurance is to be obtained, should it cover the integrated report as whole, or specific aspects of the report? Why?

We do not think it should be necessary to provide assurance for an integrated report which is already subject to audit. If a company chooses to produce an integrated report as a stand-alone document separate from the Annual Report, an assurance statement may be appropriate.

20. Please provide any other comments you have about Credibility (Section 5E).

We have no further comments.

21. Please provide any other comments you have about Chapter 5 that have not already been addressed by your responses above.

(5.1) We would not welcome the introduction of a stand-alone integrated report in addition to the existing reporting burden, and think that this option should be de-emphasised. Integrated reporting will be more effective if it can be applied to existing reporting.

22. Recognising 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 organisations in preparing an integrated report and for providing report users with information about an organisation's ability to create value in the short, medium and long term?

Subject to the comments made above, we believe that the Framework as presented provides an essential guide to organisations contemplating integrated reporting.

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?

Our three additional topics warranting further guidance would be:

Value creation

This is fundamental to integrated reporting and guidance on value techniques and how value creation or destruction can be computed for the various capitals would be helpful.

Materiality

For many organisations, determining materiality levels across capitals will be challenging, and guidance on how decision-making around materiality should be organised may be beneficial.

Conciseness

The Framework includes conciseness as one of its fundamental principles, but lists so many desirable and/or required topics for disclosure as to undermine its laudable aim to be brief. We think this is an area that warrants further consideration.

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

The main challenge facing the IIRC is how to steer greater consistency in the application of integrated reporting while at the same time avoiding being over-prescriptive. There are examples of other bodies which have produced too much detail and as a result their approach has become unworkable. We would counsel patience, with integrated reporting evolving to take account of the views of those who use the reports that companies produce. Too much guidance too early may confuse or stifle creativity.