

## 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](http://www.theiirc.org)).

**Comments should be submitted by Monday 15<sup>th</sup>, 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.

FutureValue is highly supportive of what the IIRC is trying to achieve here. We laud the ambition in this global initiative. However, we have some misgivings about the introduction in this IR framework of the concept of six capitals. This capitals concept is correct but is anathema currently to the way leaders and managers see and run their organisations. Many will see the framework as unnecessary 'business school thinking' and may reject this as a consequence.

The emphasis of this consultation response document on specific questions related to sections of the consultation framework is very practical, and probably necessary to enable easy interpretation of all the responses. But this response document, that is largely specific with questions related directly to the section of the consultation framework, has a less positive and less helpful aspect to it. By focusing the responder predominantly on the detail it takes the attention away from the bigger issues of the validity of the overall concept, basis and structure of the overall IR Framework. IIRC may not get the 'bigger picture' responses it may equally need on the overall concept and methodology.

## 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.*

Principles-based requirements are fine providing there is a clear, unequivocal and agreed basis underlying each principle. IR introduces the concept of the six categories of capitals exhorting organisations "to use these categories as a benchmark". It assumes that other management techniques fundamental to the IR framework already have a shared and clearly understood basis – business model and strategy etc.. Our extensive experience of UK and Global reporting indicates this not to be the case. There is a wide range of interpretations for strategy, strategic thinking and strategic management that undermine the concept of a principles-based approach. This is particularly discernible in UK reporting. The consultation document notes that "The Framework does not, however, set benchmarks for such things as the quality of an organization's strategy", yet FutureValue's abiding experience and assessment of UK reporting is that the quality of strategy-centric reporting is the principal limiting factor that has prevented the emergence of a reasonable standard of 'integrated reporting'.

### ***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 principle is good in theory but will prove challenging to apply without considerable additional cost incurred in respect of corporate reporting by most European companies at least. It will also be in danger of adding to clutter and confusing investors and other major stakeholders.

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?*

This will be essential as part of the guidance process companies will need if they are to see the way forward in adopting Integrated Reporting. There are few innovators in corporate reporting and too often FutureValue finds that companies want to have another example or model to emulate and not to be a leader in innovating. Most improvements and changes in narrative reporting by companies is incremental and almost never radical or 'step change'. FutureValue will be glad to provide comprehensive input on references for an online database if requested. Few are better able to do this than FutureValue.

## **Other**

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

No further comment.

## **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?*

IIRC and IR introduce here a new concept of the six categories of capitals that are at present anathema to management thinking and the way that executives and managers think about and lead their businesses. While there is an indisputable logic about the six capitals its adoption here has the feeling of a search for spurious accuracy that accountants and academics may find comfortable but that will seem alien to most in the senior teams that run major organisations.

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

There is no question about the validity of the six capitals. The question has to be about the suitability of introducing this radical concept as a part of an innovative new voluntary reporting technique. FutureValue would argue that its inclusion is arguably not the right starting point for IR and may have a negative influence on many organisations in jurisdictions less familiar with open and transparent reporting. Organisations in European locations with whom we have spoken are ambivalent about it at best.

### ***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?*

No. Here is the FutureValue definition applied to our clients and in all our evaluations of Annual Reports in UK, Europe and Asia. "The business model is the foundation of a company's strategic framework and defines the logic of the business. The business model provides both data and evidence to demonstrate how a business creates and develops value distinctly for its core markets. This requires the business to understand its sources of advantage that contribute to its profitability across the whole value system of the enterprise. A well-defined business model then enables the development and articulation of clear and consistent corporate goals, objectives and strategy." The IR Framework seems to place the business model as a function of the capitals and parallel to, but separated from, the strategic framework of the business. In the UK Corporate Governance Code the business model is defined as how a company creates and preserves value over the long term. Where is 'preserve value' in the IR business model? 'Preserve' infers the need to defend the basis of value creation over time. It is consistent with the accepted strategists' definition of the business model.

### **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?*

Outcomes here are only relevant if one subscribes to the concept of the six capitals. Where the business model is the foundation of the strategic framework the outcomes are the goals of the business and the strategy by which those goals will be achieved.

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 FutureValue business model definition applies equally to a Group of business segments as it does to a single entity Company. If a Group cannot describe its business model to show how the value of the Group of entities as a whole is more than the sum of the value of its parts then it is a conglomerate portfolio that offers higher risk and possibly lesser reward to investors.

### **Other**

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

FutureValue's principal concern about the discussion of business model in the IR Consultation Framework is that the model's positioning in the IR model allows too much discretion in its interpretation. Its position as a function of the capitals reduces the value of the overall strategy-related content. Experience indicates that the more robust the strategy-related content in corporate reporting the broader the benefit to stakeholders and the greater the likelihood of intelligible strategy-based 'integrated reporting' that integrates social, environmental and economic dimensions in the strategy of the business.

## **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?*

No comment.

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

No comment.

**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?

No comment.

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

No comment.

**Other**

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

N/A

## 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).

FutureValue's extensive experience of international corporate reporting confirms that most listed companies reporting to regulatory requirements in developed jurisdictions will incorporate a strategic framework, implicitly or explicitly, in their Annual Reports. The exemplars, in European jurisdictions at least, will already integrate social, environmental and economic dimensions in the strategy of the business in a sound governance context. The IR Content Elements are sound in this respect. The issues that cause FutureValue concern are the introduction of the six capitals concept and the questionable positioning of the business model in the IR framework, eroding the integrity of the strategy framework.

## 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?

Given that the IR reporting is voluntary this seems pointless.

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

No comment.

**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?*

What is the point of assurance in voluntary reporting? If an organisation goes to the extent and cost of developing an Integrated Report then that organisation will surely want its corporate communication investment to be taken seriously by investors. The scope and nature of any assurance should be at the discretion of the reporting organisation.

*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.*

No comment.

**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).*

N/A

## 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?*

The framework document notes that "The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription". FutureValue has considered and reviewed this consultation framework carefully and at length. We have to conclude that in its current shape the IR Framework does not offer either enough flexibility or enough prescription as our preceding comments will show. There are questions about the application of key strategic concepts in IR that need clarification to permit greater flexibility and that are perhaps also at the same time part of the need for better prescription. Principles-based reporting only works really well if there is clear unequivocal understanding of the cornerstones underlying the principles. It is the abiding failure of UK principles-based reporting, in FutureValue's experience.

## 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?*

FutureValue believes there are four critical topics to develop if the IR Framework were to be launched as in the consultation. The four are listed below, leaving the IIRC the choice on which to ignore.

- 1 More comprehensive explanation of the six capitals and their practical application across sectors
- 2 Clarity on business model definition and its relation to strategy and the capitals (not clear at present)
- 3 Strategy benchmarks for companies to adhere to so as to make the principles basis of IR reporting perceptually robust
- 4 More expansive guidance on value creation, intangibles and value drivers.

## Other

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

If IR is to be successful then the IIRC would do well to think again about the suitability of introducing a complex capitals model that will take some assimilation by most organisations and risk rejection of the entire package by many for its perceived lack of relevance to prevailing applied management techniques. This would be a pity.

The spotlight on integrated thinking as an implied benefit will also be interpreted by many as an attempt to introduce a new way to think about business and its organisation, and to introduce that new thinking through the back door by the means of voluntary corporate reporting.

FutureValue's biggest concern is that the complexity of the IR framework, and the cost its adoption will incur, without evidence of sufficient benefits accruing from it, will stall its take-up in many jurisdictions. Guidance sensitive to each region will be essential.

Please save the completed PDF form to your computer and submit via the IIRC website at [www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)