

ANALYSIS OF FRAMEWORK

CHAPTER 1: OVERVIEW – PRINCIPLES BASED REQUIREMENTS

Question 1: 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.

NOTE: This objective analysis includes only the most prevalent, significant or controversial issues as far as they relate directly to the content of the Consultation Draft of the International <IR> Framework¹, for the attention of the Working Group and therefore not all matters raised in submissions are referenced in it.

Drafting this analysis involved considerable judgment in deciding how to categorise comments into issues/themes and how to summarise the underlying positions. Statistics have been included to provide a snapshot and starting point for analysis. Although the statistics indicate the prevalence of different views, due consideration will be given to the substance of all positions expressed.

In total the IIRC received 359 submissions to the Consultation Draft. 352 are included in this analysis. The remaining 7 submissions (of which 6 were late and one was in too complex for collation) are being reviewed separately.

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A – OVERVIEW

NOTE: There was a general inconsistency with the interpretation of the question. Essentially, respondents focussed on one of three elements when responding to the question on principles-based requirements (PBR):

- (a) The "principles-based requirements" contained under the "Guiding Principles" on page 6,
- (b) Paragraphs 1.11 and 1.12 ("Application of the Framework") only, or
- (c) The various bolded italics throughout the CD.

Therefore, the thematic issues arising must be read within this context. Importantly, this also made a statistical analysis less effective when reviewing the responses. Accordingly, it was more prudent to review the essence of the responses and to categorise them thematically rather than to emphasize the statistical information.

¹ <http://www.theiirc.org/consultationdraft2013/>.

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A – OVERVIEW

- A1 There was strong support for the principles-based requirements on a whole, with over 90% of the 352 responses respondents to question 1 in “support as is” (54%) or “support with qualification” (38%). Only 2% of respondents did not support the PBR (see Appendix for their reasons). The remaining 6% of respondents demonstrated some measure of support, but it was not clearly stated.
- A2 Question 1 is framed in such a manner, that if the answer was in agreement with the current PBR, it did not prompt the respondent to explain why they were in agreement. However, at times respondents expressed their agreement with the PBR and made additional observations/suggestions, which were considered. Accordingly, the analysis predominantly focussed on understanding reasons why the PBR were “supported with qualification”. There were 134 “supported with qualification” responses, which largely forms the basis of the thematic objective analysis provided in the review. It is not the purpose of this report to provide a conclusion or opinion on the responses received, but to rather provide a snapshot of the key issues that have emerged in response to question 1. The themes have been written-up in order from most to least prevalent. A short introductory paragraph precedes each section and key extracts of respondents’ views have been included (verbatim) in the subsequent text to illustrate the flavour of comments received, together with supporting text (where relevant).

B – THE FRAMEWORK CONTENTS

- B1 This thematic area was the largest in the “supported with qualification” grouping with 48 out of the 134 responses (36%) and has a number of sub themes that have been included.

NEW PBR’S (respondents explicitly mentioned 24 (out of the 48) times)

- B2 Respondents highlighted a number of new PBR that should be included and/or elevated to a PBR within the Framework. There was commonality with these suggested PBR across stakeholder perspectives. The top four additional PBR suggested (as discussed below) were, Transparency, Balance, Comparability, and Value creation/depletion. In addition, to these four, other suggested PBRs worth mentioning were:
- Integrated thinking,
 - Context based reporting (suggesting the ability to disclose information relative to the impact of the activities that the entity has on the receiving environment, e.g.: water consumption of an entity may not be an issue in terms of volume, but may be significant in a water-scarce environment),
 - Credibility,
 - Timelines (being more explicit in terms of the short, medium and long term) and
 - Accessibility.

TRANSPARENCY (mentioned in 7 (8)² of the 24 submissions)

- “Since the requirements are principle-based and do not focus on rules for measurement or specific KPIs, and Senior management will be exercising judgement to determine which matters are material, it would be advisable to include Transparency as a principle-based requirement. Particularly, in view that many governments are now issuing Transparency Laws.” (Consultant - Ref: 016).
- “It is suggested that two additional principles be added, transparency and accessibility. While both of these principles are indeed mentioned or at least alluded to, it is submitted that these are higher order principles and should be highlighted. Conciseness and completeness are included in the principles but these are actually the means to achieve transparency and accessibility of the information reported on. For this reason, it is more appropriate that transparency and accessibility be included as principle based requirements” (Report preparer – Ref 199)

² Note: 7 mentioned within the 48. However, 1 additional count was included and indicated in brackets for purposes of completeness. However, this respondent had other concerns that have been classified within another section.

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BALANCE (mentioned in 5 of the 24 submissions)

- “Balance is an important consideration in an <IR> and should be included as a principle in its own right.” (Assurance provider – Ref 122)
- “Reliability & Completeness: In a sense, this principle does not seem necessary given that a company is already required to disclose all material matters that is free from error. The more important part of this principle that is not emphasized in the overarching statement of principle is the idea of balance and that ESG performance data is subject to the same scrutiny that other information is” (Provider of financial capital – Ref 275)

VALUE CREATION/DEPLETION: (mentioned in 4 of the 24 submissions)

- “There needs to be more explicit emphasis on the need to disclose material negative impacts” (Academic – Ref 037)
- “While overall value creation is an organization’s objective, there will be times when value for one or more capitals is diminished, intentionally or otherwise. We suggest the principles focus on creation of value and fluctuations of value over time, and the risks attendant to the pursuit of value creation. The Framework should not assume that value is always created.” (Professional bodies – Accounting – Ref 114)
- “The concept of value is at the heart of the Framework, however, the draft Framework does not define precisely what is meant by value, noting instead that it encompasses all forms of value that the organisation creates through the increase, decrease or transformation of the capitals. We believe that it is important to retain this flexibility, but that an additional requirement should be introduced for companies to state clearly how they have defined value for the purposes of their reporting.” (Assurance provider – Ref 155)

TERMINOLOGY

B3 There was some concern that the terminology used in the Framework appeared to suggest a “PBR approach” however, some of the text tends towards more of a compliance requirement. The respondents (11 out of 48) recommend that the terminology be consistent to reflect a more PBR. In addition, there was sentiment that the language used could be simplified.

- “While we agree with the approach of principles-based requirements we would like to point out the inconsistent use of imperative and bold type lettering in the Framework. Several of the bold type sentences/paragraphs include examples of a context likely to be encountered or of explanatory guidance, rather than a clear statement of what is required” (Policy makers, regulators and standard setters – Ref 194)
- “...some paragraphs in the Consultation Draft (CD) use prescriptive terminology that we find inconsistent with a principles-based framework, for example 4.12. We believe prescriptive terminology should be removed or altered to rectify this concern.” (Professional bodies- Accounting – Ref 244).
- “The principles-based requirements do not contain language that financial and sustainability reporters are accustomed to seeing. The IIRC should strive to align its terminology with widely-used reporting language so that the user experience is straightforward.” (Report preparers – Ref 269).

B4 There were a number of occasions where the issue of stakeholder responsiveness was commented on. This is elaborated on in more detail in the section on “Audience nexus”. There were 7 of 48 respondents suggesting a change or amendment to the relevant PBRs. One respondent recommended that the stakeholder responsiveness principle be changed to the “stakeholder inclusiveness principle included in the first exposure draft...” (Consultants – Ref 250). This recommendation was evidently supported by other views from report preparers suggesting a more inclusive/engagement approach, “I would suggest to replace ‘Stakeholder responsiveness’ by “Stakeholder Engagement” (Report preparer – Ref 332). Furthermore this position was supported from an NGO perspective, “replace “Stakeholder responsiveness” by “Stakeholder Engagement” as the process is to involve for and share value creation through a permanent and transparent dialogue.” (Non-governmental organisation – Ref 294).

B5 There was also one contrary view that said Stakeholder responsiveness should not be a PBR in its own right; “...we believe that the stakeholder responsiveness principle needs to be significantly revised; stakeholder responsiveness should not be an objective in its own right...” (Professional bodies – Accounting – Ref 342)

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STRUCTURE

B6 There was evidence that supported grouping of the PBRs in one place in addition, or as an alternative, to the summary on pages 6 and 7 of the CD. There was recognition that the Framework should not be a “tick-box” exercise but rather maintain its current principles-based approach, nonetheless respondents (5 out of the 48) still felt that it would be useful to have the PBRs grouped in once place in the Framework for ease of reference. “The text would be clearer if the principles were grouped together in one place.” (Report preparer – Ref 187), “It would be highly recommended that a table with the basic contents should be included in the integrated report [staff note: assumed that this meant framework] so that anyone could recognise it. (Instead of saying that there is an obligation of fulfilling the bold italic identified parts.” (Provider of financial capital – Ref 336)

C – UNAVAILABILITY OR OMISSION OF DATA

C1 This thematic area was also prominent, with 23 of the 134 responses (17%) that “supported with qualification” expressing concern over the explanation of how to apply the PBR (paragraphs 1.11 and 1.12 of the CD). This area of concern is also consistent with respondents’ request for more guidance on how to deal with paragraphs 1.11 and 1.12 in the CD: “...omission of data if reliable data is ‘unavailable’ or will cause ‘competitive harm’. These notions will require significant guidance (more so than legal prohibition)...” (Policy makers, regulators and standard setters – Ref 159)

- Disagreement with requirement to provide reasons for omissions, e.g.: “A requirement to give the reasons for omitting information and data could therefore lead to a report full of non-informative disclosures. This should be avoided.” (Report preparer – Ref 062), and “...disagree when the Framework requires organizations to inform and explain the omitted material information on the <IR>. Due to the legal proceedings or to the unavailability reliable data or to the competitive advantage loses some information must be omitted.” (Report preparer – Ref 113), and “...the Draft Framework would require disclosure of information to third parties that is likely to give such parties a commercial advantage, resulting in a material disadvantage to the entity..” (Professional bodies – Other – Ref 143)
- Disagreement with “unavailability of reliable data” as a reason for omission, e.g.:
 - “...users of the integrated report may not accept “unavailability of reliable data” as a reason for not complying with all of the principles, and therefore that companies may be compelled to undertake expensive data gathering that does not make sense from a cost/benefit perspective” (Professional bodies – Accounting – Ref 120),
 - “...in the case of the unavailability... should be eliminated. Nobody can assure that the disclosed integrated report is not missing any material information” (Analyst – Ref 142),
 - “As there may be legal prohibitions that are not ‘specific’ but nevertheless applicable, the word ‘specific’ may be deleted (paragraphs 1.11-1.12).
 - Also, in certain situations, it may not be possible to discuss the bullet points (paragraph 1.12) because of legal reasons. These need to be recognised under the principal based statements.” (Professional bodies – other – Ref 144)
- Disagreement with the use of the phrase “competitive harm”, e.g.: The phrase “competitive harm” leaves a lot up to interpretation. I think the term could be used by companies to provide them a shield to work around being transparent with the public. “(Assurance provider – Ref 147), and “This exclusion, if retained, increases the risk that organisations will misuse it in order to avoid adverse disclosure under the pretence of competitive harm. If this provision is retained, then guidance should be provided as to what would likely constitute genuine and valid competitive harm.” (Assurance provider – Ref 234), and “...if there is a competitive harm result or if it is a strategic matter, no company will disclose or be able to explain why it did not disclose. Some issues will never show in reports due to its strategic importance...” (Report preparer – Ref 267)

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D – THE FRAMEWORK’S APPLICATION

- D1 This thematic area constituted 22 of the 134 responses (16 %) of the “supported with qualification” category. This thematic area was grouped together even though there were no specific Framework-content changes; it was still prudent to include feedback. The respondents were not in disagreement with the various PBRs; it was more a question of how the Framework can and/or should be applied in its current form.
- D2 There was a consistent message (4 of the 22 respondents) to support the view that: “Full compliance with the principles may be over-ambitious, for some organisations particularly, to begin with. We therefore think that a general ‘comply or explain’ provision might be helpful in encouraging adoption.” (Professional bodies - Accounting – Ref 184). “Given that many companies are still in the early stage of their integrated reporting journey we suggest that the “apply or explain” approach be adopted for the principles-based requirements set out in the Framework.” (Policy makers, regulators and standard setters – Ref 189)
- D3 Another key concern related to how some of the “conflicting principles” can be applied, e.g.:
- “a potential conflict between the principles of reliability and conciseness, and materiality and completeness” (Report preparer – Ref 308),
 - “The principles of Materiality and Comparability are not consistent. The first one implies that a company discloses on its specific material issues but the materiality analysis of different companies in the same industry could be different and then they could result as not comparable, despite the principle of comparability” (Report preparer – Ref 172),
 - “tension between the principles of stakeholder responsiveness, materiality and completeness – contradiction” (Professional bodies – other – Ref 152).
- D4 A third concern (7 of 22 respondents) was relating to the timing of <IR>, with specific reference to understanding reporting on the short, medium and long term (as per paragraph 1.3 of the CD). The definition of timeframes relative to the entity’s strategy appeared to be an area of concern: “...the organisation’s ability to create value in the short, medium and long term and there is reference in various places (e.g. 1.8) to considering the long term view; the principles do not articulate specifically the need to consider the variation in timeframes that is appropriate for different outcomes (e.g. financial vs. natural)” (Provider financial capital – Ref 132). This area of concern was particularly evident from the perspective of the providers of financial capital (5 out of the 7 respondents related to this concern).

E – COMPARABILITY

- E1 This thematic area constituted 13 of the 134 responses (10 %) of the “supported with qualification” category. It was recognised that although a PBR is largely supported, there is some concern with the lessening of comparability between companies’ reports.
- “...a reporting framework that is useful to stakeholders - including providers of financial capital and others groups - is that reports are comparable within the same organization, and between organizations over time (as noted at 3.48). To further improve comparability of <IR>s, we encourage the IIRC to expand the ‘core’ of reporting requirements and methods common to all <IR>s to include: (i) higher minimum standards of disclosure; (ii) greater specification of key components; and, (iii) further definition of key terms.” (Academic – Ref 104).
 - “...the choice of material issues becomes discretionary and / or subjective, with the effect of making the report of the companies not very comparable.” (Report preparer – Ref 201)
- E2 One respondent suggested an interim solution to the issue of comparability, whilst integrated reporting is still being developed:
- “...We feel that understanding the trend within a company (through that company applying a consistent measurement and reporting approach) may be a more practical goal in the initial years of integrated reporting than seeking comparability between different organisations, even those within the same sector...” (Report preparer – Ref 247).

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F – AUDIENCE NEXUS

- F1 This thematic area consisted of 9 of the 134 responses (7%) of the “supported with qualification” category. Most challenged the identification of providers of financial capital as the primary audience:
- “We do not create our integrated report specifically for providers of financial capital (as the consultation framework states in 1.6) but for multiple stakeholders, including employees, customers, suppliers, governments and NGOs.” (Report preparer – Ref 038)
 - “Integrated Reporting should be oriented to Profit, People and Planet, not primarily suppliers of financial capital” (Professional bodies – other – Ref 093)
 - “...an Integrated Report is likely to benefit all stakeholders interested in an organisation’s ability to create value over time, it does not follow that such benefit will be achieved from the Integrated Report if the primary audience is limited to the ‘providers of financial capital’ ”(Professional bodies – accounting – Ref 205)
 - “the principles include the fact that the main audience is investors. Two considerations flow: (i) is this correct? will we not increasingly see pressure from a wider audience to have their interests reflected in company reports? and (ii) if correct, are we clear how each of the concepts outlined in the rest of the paper would really enhance investor understanding?” (Report preparer – Ref 187)
- F2 This view was not shared by all, however:
- “An <IR> aimed at meeting all the information needs of all stakeholders is neither practical nor desirable in preparing a report that concisely captures the entity’s strategy and business model. In addition we note that some stakeholders - e.g. regulators - will have specific information needs and access to additional information that would not be suitable to an <IR>. We recommend: The Framework should retain the notion that the investor as the primary recipient of the <IR> but recognize that when the <IR> encapsulates financial statements and risk reports based on framework developed by other standard setters or regulators that the <IR> may include directed also at other stakeholders. ” (Report preparer – Ref 324)

G – OTHER

- G1 This section constituted 19 of the 134 responses (14 %) of the “supported with qualification” category, but is made up of diverse issues that on their own do not constitute more than 5% of the category. The essence of these issues are summarised in the following statements:
- Quality integration: “add principles that broadly provide information as to how an organization applies quality management techniques” (Professional bodies –Accounting)
 - Linkage with other frameworks: “the guiding principles contained in this Chapter could be informed by the qualitative characteristics in the IASB/FASB conceptual frameworks” (Assurance provider – Ref 182), “...the principles used in the framework should, where possible, be consistent with frameworks used in other existing reporting frameworks to allow for ease of integration, to enable linkage to other reports and communications...” (Individual – Ref 185), “The framework should include all financial information principles...” (Analyst –Ref 186)

APPENDIX

(Essence of the 2% (7) of respondents who did not support the PBRs)

- *Value creation:* "IIRC is perpetuating an outdated, inappropriate, and potentially dangerous concept: the presumption of eternal growth. By focusing throughout the Framework on "value creation," and similar language of increase, the Framework embodies – written into virtually every section – a presumption that growth is the ultimate goal." (NGO - Ref 012)
- *Corporate Social Responsibility - Food security:* "the facets of food security and the limitations of the current IIRC model. The model needs to expand to denote the concept of responsibility." (Individual - Ref 017)
- *Unavailability of information/Competitive harm* firms will use the principles-based approach to avoid reporting on matters that they want to hide" (Academic - Ref 090)
- *Application of the framework:* "Companies strongly believe that the concept of IR cannot be promoted at international or European level as a mandatory public information framework" - Key point column (Professional bodies -other - Ref 112); "However companies regard the IR Framework essentially as a set of principles that may be used internally to manage their business or prepare/refine their communication with stakeholders" - Question 1 column (Professional bodies -other - Ref 112)
- *Impacts and value creation:* "What I have repeatedly expressed throughout my responses is that the framework is flawed in one very large way: it is entirely too focused on the concerns of the companies themselves, and not nearly concerned enough about reporting the impacts of the companies in ways that don't affect their internal value creation." (Academic - Ref 009)
- *Audience nexus:* "this approach is clearly in line with the shareholder view and a market-oriented perspective and it consequently privileges the information needs of a well-identified category of stakeholders" (NGO -Ref 207)
- *Audience nexus & Value creation:* "... not convinced that this model of integrated reporting is the best way to advance sustainable development ... the interests of the organization and those of society will not always be the same and should not be confused.", "concept of "value creation", even allowing for the possibility of the diminution of any of the six "capitals", will make it easy for management to shift the focus away from the negative impacts on society caused by the activity of the business enterprise" (Labour - Ref 259)