ANALYSIS OF FRAMEWORK

CHAPTER 3: GUIDING PRINCIPLES - MATERIALITY AND CONCISENESS (Section 3D)

Question 11 and 12: 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).

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> Framework[1], 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 categories comments into issues/themes and how to summaries 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.

CONTENTS

A – OVERVIEW

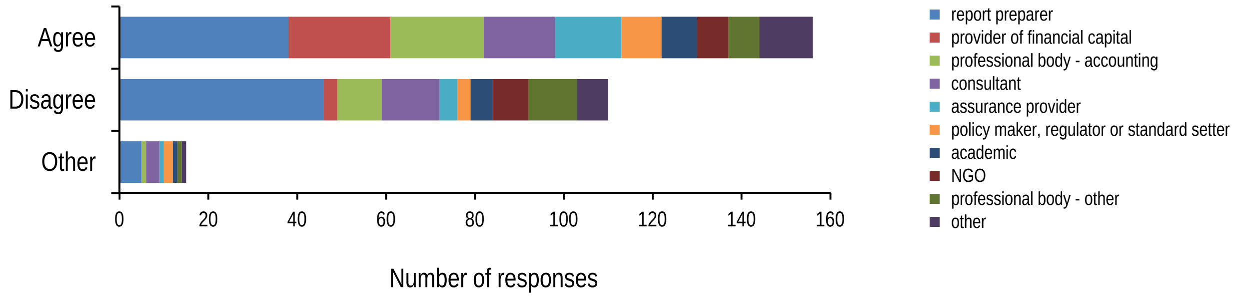
A1 The response rate to Question 11 was 80%, while that of Question 12 was 52%. Notably, many respondents chose to file all materiality-related comments under Question 11, offering a "no further comments" or simple cross reference under Question 12. For this reason – and because materiality's definition and underlying process are inextricably linked – key findings from Questions 11 and 12 are presented here in aggregate.

A2 Responses to the question *'Do you agree with the proposed approach to materiality?'* were as follows:

Fully agree	62	18%	22%
Agree with minor qualification	94	27%	33%
Disagree/major qualification	110	31%	39%
Other (i.e., unclear position)	15	4%	5%
No response	71	20%	--
Total	352	100%	100%

A3 As shown in the right-most column, 55% of respondents agreed with the proposed approach. The following provides a breakdown of responses by stakeholder group. The majority of report preparers (52%) disagreed with the proposed approach, while the majority of providers of financial capital (88%) agreed with the approach.

[1] http://www.theiirc.org/consultationdraft2013/.



A4 Points of concern centred on the following themes:

- marginalization of the interests of other stakeholders (36% of responses)
- misalignment with materiality definitions already in use (28% of responses)
- insufficient detail on a range of materiality-related topics (16% of responses)
- editorial considerations spanning over 30 categories

A5 In addition to the preceding themes, respondents offered several points for further consideration. For example, some cautioned against the Framework's treatment of investors as a homogeneous group with a common remit or approach. Others were wary about the ability to achieve conciseness in practice, referencing a continued tension between *concise* yet *complete* information and pointing to an extensive list of disclosure expectations in the Framework.

A6 Some opposed disclosure of the materiality assessment process on the basis that it was peripheral, burdensome and a potential source of boilerplate. Others applauded this aspect of the Framework on the grounds that it provided transparency.

A7 Some found the Framework's wording confusing in terms of who actually performs or drives the assessment (i.e., the organization versus the provider of financial capital). Others pointed to terminology that would seem to invite management bias or 'spin'.

A8 Some respondents predicted that aspects of the Framework's structure and emphasis might fuel confusion about the materiality process and detract from the spirit and intent of <IR>. In particular, the subtle distinction between (i) identifying multi-stakeholder interests *for materiality purposes* and (ii) understanding the audience's information needs *for reporting purposes* was flagged as a potential source of misinterpretation. Some suggested that a decoupling of the materiality definition from the intended audience and increased linkage to value creation, management of capitals and business model was warranted.

A9 Finally, and perhaps as a side note, some responses implied a limited understanding of the difference between integrated reporting and sustainability reporting, in terms of their scope, audience and objectives. As such, certain responses proved to be a critique not of the Framework's proposed *materiality approach*, but rather of the broader concept of <IR>, as established by the IIRC.

B – POINTS OF AGREEMENT

B1 Respondents volunteered their approval for four aspects of the proposed materiality approach. These aspects are addressed in the following sections in order of frequency of mention:

- Primary focus on providers of financial capital
- Focus on conciseness
- Through the eyes of management
- Connection to other framework concepts

PRIMARY FOCUS ON PROVIDERS OF FINANCIAL CAPITAL

B2 Some 40 respondents (16%) expressed approval for the approach's focus on providers of financial capital.

- One North American provider of financial capital agreed with this focus, adding *"but we also believe that in the long term, materiality must encompass more than the narrow legal and accounting definitions that are currently understood and in use."* A second provider of financial capital in the region stated, *"We would agree that not all information is relevant for all stakeholders and that there is a need for more concise reporting for investors."*
- According to a provider of financial capital based in Oceania, *"…disclosure via an integrated report synthesizes the information required to make informed investment decisions. This includes insight into a company's ability to create value and manage material risks, and how this ability translates across a range of factors not traditionally captured in reporting (i.e., the six capitals)… Increasingly, investors are cognisant that a holistic model of reporting, such as that represented in integrated reporting, is necessary to meet our information needs."* Another provider of financial capital in the region strongly agreed with the primary audience for <IR>, adding that *"increasing the sensitivity of financial flows to all measures relevant to value, including material ESG factors, should be <IR>'s principal focus."*
- A North American accounting body agreed with focusing on the information needs of providers of financial capital on the basis that *"any other approach would not result in a concise report due to the disparate demands for information among the various stakeholder groups."* An Asian accounting body and academic jointly concurred, stating, *"We see this [focus] as essential to producing concise, readable reports. The needs of other important stakeholders should be met separately by sustainability reports…"*.
- A global assurance provider remarked that *"…the primary audience for <IR> should be providers of financial capital in order to support their financial capital allocation assessments. It is important to identify a primary user to serve as a lens through which those matters critical to an understanding of the organisation are identified and assessed."* A global accounting body offered, *"We believe that an integrated report should contain relevant information that is material for an understanding of an organisation's sustainable business success. With the exception of extremely short timescale providers of financial capital, we agree that assessments made by the primary intended report users represent an appropriate benchmark against which to gauge materiality."* A South American report preparer went a step further by recommending that the Framework *"be more explicit on the [importance of involving] providers of financial capital in the materiality process and ways to involve them."*
- A policy-maker based in Africa observed, *"An effective corporate report should be responsive to the material interests of its target audience and seeking to meet the information requests of all stakeholders in one report may detract from the ability to distil true materiality. The aim of the organisation's other detailed reports is to provide information of material interest to different stakeholders in a medium and using language appropriate to those stakeholders."* The response went on to note, *"In following the requirements of the Framework, the report will necessarily reflect on the extent to which key resources and stakeholder relationships materially impact on value… The fact that the organisation might have providers of financial capital who, for instance, are interested only in short-term value creation or who fail to appreciate the organisation's dependency on certain capitals, does not take precedence over the principles-based requirements of the Framework."*

B3 Three respondents cautioned against the Framework's treatment of investors as a homogeneous group with a common remit or approach.

- A North American non-governmental organization noted that *"at one end of the continuum are investors who are narrowly focused on short-term financial returns. On other parts of the continuum are the growing cadre of investors who recognize the impacts of 'intangibles', including social and natural capitals, especially on corporate value in the medium and long term. We recommend that the narrative in Section 3D should explicitly note that companies should approach the materiality determination process with a broader perspective, and thereby attempt to satisfy the needs of the financial community across the continuum."*
- A North American provider of financial capital flagged a danger *"in relying on the subjectivity of the assessments made by the report user, as different portions of the financial community are at various stages of acknowledgement when it comes to so-called non-financial indicators of performance. For this reason, more emphasis should be placed on [Paragraph] 3.24 in terms of senior management and the Board having a strong process in place to determine what is material that is transparent for all investors to see and assess for themselves if that is part of their investment process. This section seems to imply that the investment community is homogeneous and this is not a useful assumption…."*
- A professional body based in Oceania noted that the Framework's definition is essentially *"asking those charged with governance to put themselves in the position of the primary report user to determine materiality. This assessment is likely to differ depending on the nature of an organisation's primary report users."*

FOCUS ON CONCISENESS

B4 A second theme, already captured in some of the previous section's quotes, focused on the conciseness enabled by a materiality filter. Approximatedly 11% of respondents flagged this as a positive feature of the Framework.

- As one global assurance provider noted, *"Restricting the integrated report to material matters is critical as it will help improve the quality of reporting and minimise the volume of irrelevant and unhelpful disclosures. This is consistent with initiatives within the financial markets, in which there is significant focus on reducing unnecessary disclosure."*
- A report preparer from Asia stated, *"…we find that the concept of materiality is the best guardian against an [integrated report] that becomes excessively long."*
- A collective response from global providers of financial capital stated, *"We strongly agree with the need for conciseness set out in Paragraph 3.29 and the reduction of clutter. Integrated reporting should not be about the wild profusion of unmanageable data."*

B5 Some respondents (4%) were wary about the ability to achieve conciseness in practice, with some referencing the continued tension between concise yet complete information.

- In a joint submission, an academic and non-governmental organization in Western Europe predicted that *"the variety and quantity of information that should be included in the report makes [it] very difficult to respect the principle of conciseness. The risk of redundancy and duplication of information is high, particularly in [the] case of organisations with multiple business models…".*
- A global assurance provider offered, *"Conciseness is a desirable quality given that other forms of reporting will tend to continue, in addition to <IR>. However, proper coverage of material issues is the more important quality which should [be] met. ….conciseness will be difficult to achieve, given the wide range of content envisaged."*
- A global accounting body stated that *"the need to disclose all material information should not be constrained by a desire for conciseness, desirable though this is. The requirement should be to disclose all material information (completeness), but to do so as concisely as possible."*
- A report preparer based in Asia stated, *"We are concerned that the current requirement in Paragraph 3.30 to explicitly disclose 'all' material information could inadvertently create a too voluminous [integrated report], as entities may be concerned with the legal implications if disclosures were omitted."*

- A North American professional body expressed concern over the prioritization process in Paragraph 5.12, which *"proposes that, if the list of material matters is too long, the materiality threshold should be revisited to shorten the list."* The respondent went on to say, *"This approach seems somewhat contradictory. Once an organization has determined a materiality threshold, presumably they should remain consistent with that throughout the document in order to preserve the integrity of their reporting."*

B6 Some respondents (4%) described the disclosure of the materiality assessment process, at least to the extent encouraged by the Framework, as burdensome, peripheral to the communication of value creation and a potential source of boilerplate.

- As one professional body in Oceania remarked, *"The requirement in Paragraph 3.28 for an organisation to disclose the materiality determination process would in our view add unnecessary bulk to an integrated report and these disclosures should not differ significantly from year to year. We recommend that static information of this nature should not be included within an integrated report, but may be best placed in an external document or on the organisation's website and referred to in the integrated report."*
- It is worth noting that 5% of respondents, including broad representation across all stakeholder groups, supported process-oriented disclosures on the basis that they enhance transparency.

THROUGH THE EYES OF MANAGEMENT

B7 A third advantage cited by 9% of respondents was a view into the organization through management's eyes.

- A consulting firm based in South America noted, *"As it is top [management's] responsibility to establish business strategy and application of resources, a materiality process defined by this board will reflect the actual administration and direction of business…".*
- As a report preparer in the same region observed, a *"key point, which brings greater depth on issues that are really important for the business, is the concept that the report is not only a compilation of facts and data, but a reflection of the company's management and [demand of] providers of financial capital."*
- A global analyst noted that materiality should be determined *"by reference to both the primary intended report users as a collective group and by reference to the company's own knowledge of its business at that point in time…"*.
- A consultant based in Asia offered the following perspective: *"The primary intended report users – providers of financial capital – ipso facto may not know what information is material for any given company; therefore, guidance from the corporate issuer of the report is required. Importantly, corporate management and outside directors have a fiduciary duty regarding the materiality aspect of integrated reporting because they have a more comprehensive and more accurate sense of (the) situation; this is particularly important in Japan, where outside directors are still the exception rather than the rule. In point of fact, analysts and investors need the help of company managements in assessing the impact of non-financial issues, such as knowledge, organizational, and environmental factors."*

B8 Some arguments were rooted firmly in capital market theory.

- A joint submission from report preparers in Asia contended, *"The <u>intention of the business</u> [emphasis added] is all that is important, not the <u>expectations of investors</u> [emphasis added]. The materiality of an issue should be set by management and if the investor agrees, then they invest; if not, they [divest] or walk away. This is the way the capital markets work and as the Framework is market driven, then so too should materiality [be]."*
- An Oceania-based consultant stated, *"I believe report users and external stakeholders are better served by understanding what senior management and those charged with governance truly believe is material, and if they disagree they can calibrate their engagement with the company accordingly. I also note that the Framework appropriately includes a separate principle for 'Stakeholder Responsiveness', and therefore is not neglecting this important aspect of good quality <IR>."*

B9 It should be noted that the Framework's current wording proved problematic for some, in terms of identifying who actually drives the assessment: the *organization* versus the *provider of financial capital*.

- A global non-governmental organization offered the following clarification: *"We believe there is an important nuance that perhaps needs to be explained. While materiality helps to determine what is necessary for the assessment of the company by the intended users, materiality is based on a judgement call made by the 'senior management or those charged with governance' and not necessarily by the intended users. We think that good governance processes on (the) definition of materiality will usually call upon … several company stakeholders to help define what is relevant for them. It is then up to management to justify what has been included as material, …"*

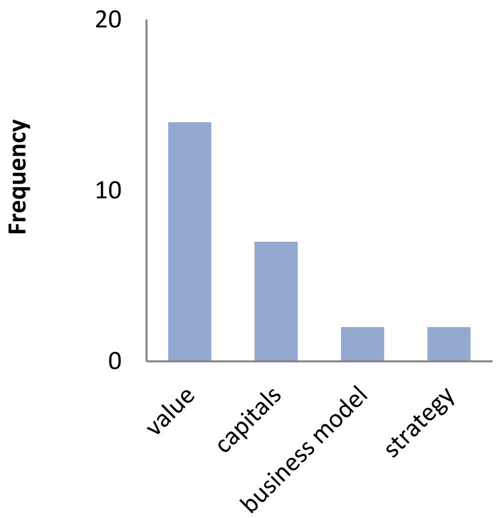
B10 The potential for management bias was raised by a small minority (3%).

- As a North American assurance provider pointed out, *"The phrase 'potential to substantively affect' is very vague. It leaves too much up to the company to determine materiality, especially when determining what to disclose, as detailed by [Paragraph] 3.28. I can see situations where companies dismiss negative/unfavorable matters because they do not have the 'potential' to substantively affect their business or strategy."*
- A North American professional body commented, *"Allowing only senior management and those charged with governance to determine which ESG data are material has the potential to exclude other ESG information that is indeed material to investment decisions or is required under regulations but has been overlooked or dismissed by corporate management… It will be more important for companies to focus on a credible and robust process used to determine materiality and risk prioritization which includes the involvement of other stakeholders, such as employees, customers, suppliers, investors and communities."*

CONNECTION TO OTHER FRAMEWORK CONCEPTS

B11 Some respondents (6%) highlighted the connection between the materiality approach and other critical <IR> concepts as a positive feature of the Framework. As shown in the accompanying graph, respondents found the link to value creation and management of capitals to be particularly important.

- In the context of value creation, a global provider of financial capital offered the following qualification: "*We agree with this approach to materiality if it is clear that the concept of value creation refers to 'financial value creation that is sustainable in terms of its impact/use of associated types of capital'."*
- A provider of financial capital in South America underscored the importance of considering how a particular matter *"has the potential to affect the strategy, business model or the capitals the organization uses or modifies"*.



B12 Notwithstanding this support, an even higher proportion of respondents (18%) called for a strengthening of these links within the Framework (see Paragraph C6).

C – POINTS OF CONCERN

C1 As detailed in the following sections, respondents expressed concern in the four key areas:

- Interests of other stakeholders
- Misalignment with existing definitions
- Additional guidance needed
- Editorial notes

INTERESTS OF OTHER STAKEHOLDERS

C2 Approximately one-third of repondents interpreted the proposed materiality approach – and, in particular, its focus on the information needs of providers of financial capital – as overlooking or diminishing broader societal or environmental interests.

- As a report preparer in Western Europe noted, *"There is a contradiction … in the obligation to consider in a very broad way all the different parts of the business model (all the capitals and their interdependencies, the outcomes, externalities, trade-offs...) and to narrow the materiality issue to the relevance and importance for one stakeholder only: the funds provider. This is also somehow in opposition with the stakeholders responsiveness principle."*
- An accounting body in Western Europe contended that the Framework's approach *"adds nothing to existing financial reporting and is, therefore, not supported. It is proposed to take a broad stakeholder view. In addition, the financial perspective tends to take a monetary focus only, sometimes resulting in discussions about [monetization] of external effects, instead of focus[ing] on impact related towards material issues from a stakeholder perspective."*
- A professional body based in Africa expressed concern *"with the emphasis on the statements that 'providers of financial capital' determine materiality (3.23) and are being regarded as the 'primary intended report users' (1.6). This limited focus in fact undermines the breakthrough concept of the six capitals by focusing solely on one of them."*
- In a similar vein, a global report preparer offered the following concern: *"While we agree that the primary audience for integrated reporting should be providers of financial capital, we wonder whether they are the only relevant stakeholder in deciding on [the] materiality process. Employees and customers might also have something to contribute in refining [the] concepts of materiality. In addition, confining [the] discussion of materiality to investors risks creating a self-fulfilling cycle, resulting in an emphasis on financial reporting, when your objective is to get reports to go wider."*
- A report preparer based in Asia offered, *"By changing the definition of materiality from <u>other</u> [emphasis added] globally accepted protocols on sustainability, it brings about multiplicity and possible dissonance with other reports that an organization may produce. While it is easy to understand where this definition of materiality comes from, even by simply stating that one group of capital providers is more important … than the others, it brings about a distortion…"*

C3 The underlined portion of the preceding bullet point warrants further comment. Some responses indicated a limited understanding of the distinction between integrated reporting and sustainability reporting, in terms of their scope, audience and objectives. As such, certain feedback proved to be a critique not of the Framework's proposed materiality approach, but rather of the broader definition of <IR>, as established by the IIRC. Naturally, the concepts are intertwined, with the definition of <IR> influencing the parameters of the materiality assessment. Despite the subtle distinction, a small proportion of responses (2%) acknowledged this logical construct head on:

- *"If the Framework has definitively chosen the providers of financial capital as the primary intended report users, the proposed definition of 'materiality' is the solely possible one."* (Academic, Western Europe)
- *"…this approach is logical within the 'rules of the game' established by the draft Framework."* (Report preparer, Central and South America)

- *"On the face of it, [the materiality definition] excludes the wider stakeholder community to whom the information within an integrated report may be relevant. We acknowledge that this appears to be the intention of the Framework, in setting itself up to treat the providers of financial capital as the primary users of an integrated report."* (Report preparer, Global)
- *"We agree with the definition of materiality and with the materiality determination process if the focus is limited to financial capital providers."* (Policy maker, regulator or standard setter, Oceania)
- *"The approach to materiality is consistent with the primary objective of integrated reporting, that is, to provide information regarding the value-creation process of the firm toward the financial capital providers."* (Academic, Global)
- *"Given that an integrated report is intended as an investor focused report, we believe the information required to be included in an integrated report should be limited to matters relating to the judgements that would be incorporated into an investor's assessment of the intrinsic value of the business."* (Assurance provider, Global)

C4 An academic from Africa urged the IIRC to *"please enable users to differentiate between (i) a multi-stakeholder process, and (ii) communicating … findings to only one stakeholder group (providers of financial capital). So, you have an open process, but the [integrated report] extracts its results from a financial sector point of view."* Along this thread, some speculated that aspects of the Framework's structure and emphasis may fuel confusion and detract from the spirit and intent of <IR>.

Structure

- A North American consultant offered the following caution: *"Acknowledging that stakeholder responsiveness is covered in 3C, Paragraph 3.23 of Section 3D may give the impression that senior management and the governing body are determining materiality in a vacuum, albeit an educated one*."
- A report preparer in Western Europe noted, *"The IIRC begins with a definition of materiality from the investor's perspective but picks up subsequently by considering and including all stakeholders and all forms of capitals. This lack of consideration of all stakeholders from the very beginning does not contribute to avoiding a 'cherry picking' approach in materiality."*

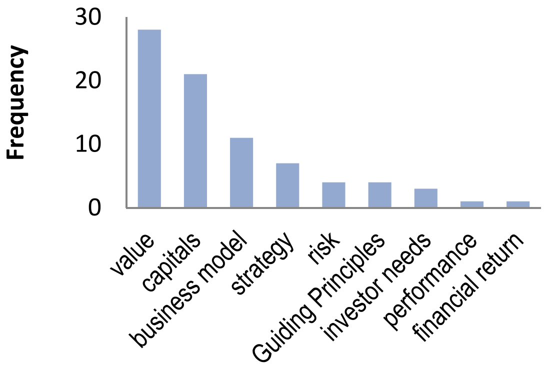
Emphasis

- Some respondents cautioned against strongly aligning the concept of materiality to the intended audience rather than to the fundamental concepts of <IR> (i.e., the six capitals, business model and value creation). As one global report preparer put it, *"In the context of primary users who may not be fully aware of the wider implications of the capitals framework, and who are potentially over-focused on purely short-term and financial considerations, there is a danger that the definition of materiality (3.23) may itself become short-term and financially focussed. This would be to miss the entire point of <IR>. Materiality should be more explicitly linked to the impacts of an issue on the wider <IR> Framework, to ensure that this is not the case. <IR> preparers should not be overly concerned that primary users may not initially appreciate the significance of an issue that they, the preparers, consider material."*

C5 A global academic asserted that the materiality approach wrongly focuses on the *product* (i.e., the integrated report) rather than the *process*.[2] An unintended consequence of this approach was explained as follows: *"Even if the issues that the organization chooses to report are those that are material to investors, this should not mean that the underlying reporting processes should be unduly skewed to favor investors…".* The respondent went on to say, *"During the integrated reporting process, the materiality of an item should be considered purely on its relevance to affect the organization's ability to create value in the short, medium and long term. At this point, the source of the item is not relevant, it can come from any stakeholder group; the individual circumstances of the entity will dictate what is relevant in terms of the value [creation] process."*

[2] On a related note, a submission on behalf of North American report preparers noted that the Framework confuses two issues: *what is material* versus *what is material for reporting*.

C6 Although the perspectives in Paragraph C5 and third bullet point of Paragraph C4 have different starting points, they converge on a similar conclusion: the link between materiality and the fundamental concepts of <IR> ought to be of primary concern. As shown in the bullet points below, the proposed decoupling of materiality from the intended audience – in favour of increased emphasis on concepts such as value creation, management of capitals and business model – appeared in other responses as well. In particular, 18% of respondents called for more explicit links to the Framework concepts shown in the accompanying graph.

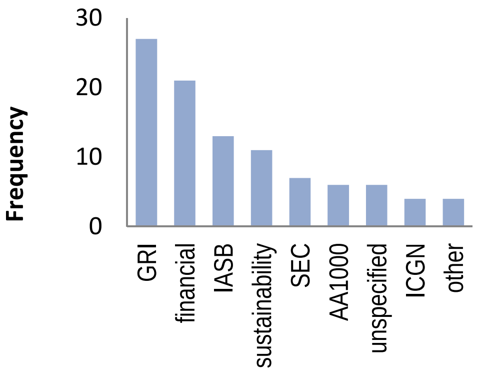


- An analyst in Western Europe offered, *"We do not consider … the fact that users are providers of financial capital should be stated as a criteria for materiality. Materiality has to be assessed through internal criteria linked with the business of the company and its value creation process."*
- A global standard setter proposed that *"management and those charged with governance should work on the presumption that matters are, by definition, material to the intended audience if they affect or have the potential to affect the organization's strategy, business model or one of the capitals it uses."*
- A non-governmental organization in Western Europe said that the current proposal *"does not substantially differ from the existing principles of accounting law"* and may serve to "*defend [the] status quo rather than move markets and companies towards [an] integrated approach."* The organization suggested that the IIRC *"consider anchoring the definition of materiality on the potential of a matter in question to substantively affect the organization's strategy, its business model, or one or more of the capitals it uses or affects in the short, medium or long term rather than what is investors' or markets' assessment of such potential."*
- A policy maker in Africa offered: *"The fundamental concepts of value and capitals acknowledge that value is co-created by all providers and forms of capital. Further, it is acknowledged that these other providers impact the financial returns to providers of financial capital. The assumption is that what is materially important to one stakeholder group is likely to influence others. The effect is that the important interests of all key stakeholders are correctly considered by an organisation in telling its story of value creation. To specifically target investors is a contradiction of this assumption."*

MISALIGNMENT WITH EXISTING DEFINITIONS

C7 Almost 30% of respondents expressed concern over a growing pool of materiality definitions and a perceived conflict with existing approaches. In the interest of context, the accompanying graph illustrates the most frequently anticipated conflicts. As shown, some respondents referred to specific standards or frameworks while others referenced financial and sustainability reporting broadly. At the root of respondents' concerns were the following points:

- confusion stemming from a prolifieration of definitions
- burden associated with reconciling divergent approaches
- litigation risk arising from multiple materiality thresholds



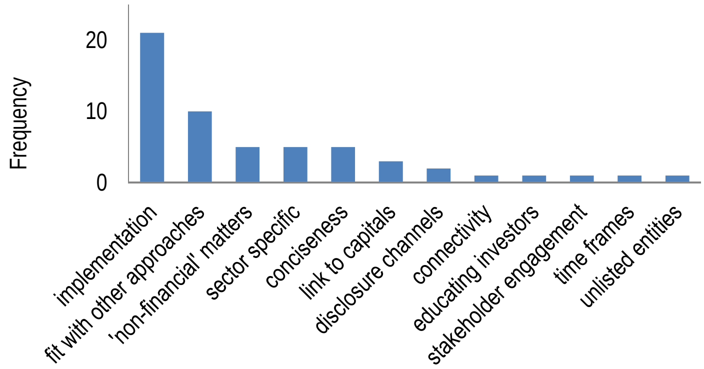
C8 Some respondents encouraged a mapping of the Framework's proposed approach to others already in use. A relatively small population (4%), contended that it was beyond the Framework's remit to define either materiality or the primary audience for <IR>. Said one North American report preparer, *"The IIRC can provide guidelines for consideration in determining what matters are discussed in an integrated report without having to provide a new [emphasis added] definition of materiality."*

C9 Still others characterized the Framework's use of the word 'material' as inappropriate or unnecessary.

- A professional body in North America noted, *"companies must comply with the definition of materiality established by regulators. It is impractical to have different definitions in different reports. Using a word such as 'priorities' instead of 'materiality', which is imbued with years of regulatory implications, may make the <IR> concept less difficult for companies to adopt."*
- Similar sentiments were expressed by a global accounting body, which remarked that *"use of the word 'materiality' has an implication of application to quantified amounts and might be better replaced by the term 'significant relevance' as more appropriately applied to concepts and intangibles."*
- According to a global professional body, *"the <IR> approach is basically a prioritization process with a risk-basis, primarily intended for providers of financial capital as stakeholders."* Given this perceived equivalence to enterprise or other risk management approaches, *"it is difficult to justify confusing readers by referring to this as an approach to materiality."*
- A North American accounting body held that the Framework *"focuses too much on materiality, whereas identifying, assessing and prioritizing are probably the more relevant concepts."* The organization further recommended that the materiality section *"be reframed in terms of prioritization"* and that *"more guidance … be provided to help an organization determine the key items to report in an integrated report."*

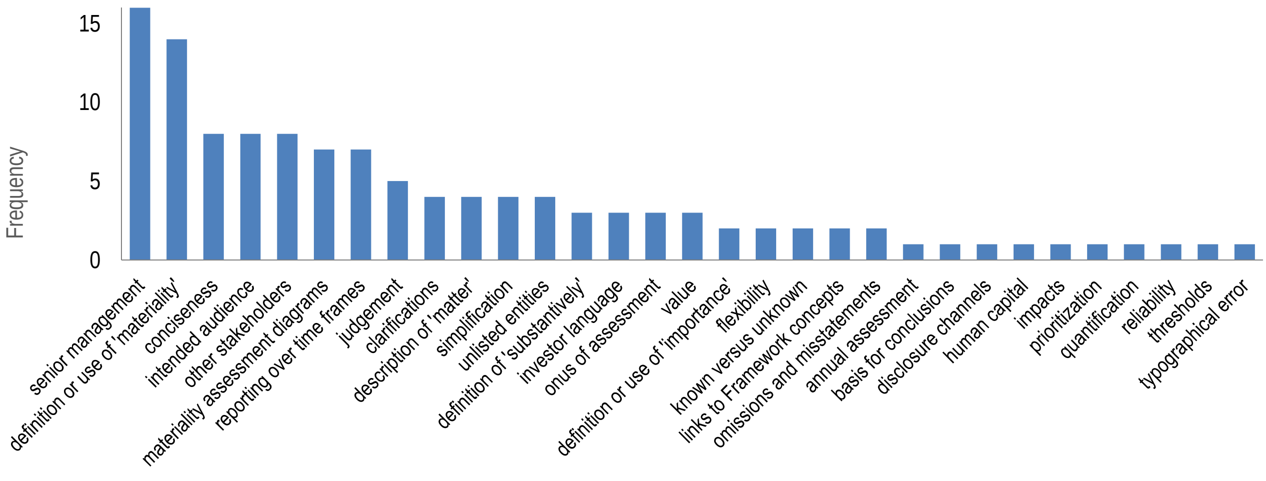
ADDITIONAL GUIDANCE NEEDED

C10 In 16% of the cases, respondents sought more detailed information, either within the Framework's supporting text or as a separate guidance document or compilation of examples. The accompanying graph illustrates the frequency with which materiality-related themes were raised in the context of guidance.



EDITORIAL NOTES

C11 Respondents provided well over 100 editorial notes, covering a broad range of topics. As shown below, recommendations related to the Framework's concepts, definitions, structure and diagrams. Some featured detailed editorial notes, while others simply requested clarity on a particular term or concept. Proposed amendments are as summarized in the Appendix.



APPENDIX – EDITORIAL CONSIDERATIONS

Recommendations are condensed or otherwise modified for brevity and clarity – see referenced response letter for original text.

senior management	
022	It is positive to include senior management and those charged with governance but consider also the risk teams, procurement and marketing teams and others as relevant stakeholders in the discussion. In some businesses, it may be a wider or a smaller group so consider naming senior management, the board, sustainability/governance representatives and other relevant internal stakeholders.
027 171	The term 'Senior Management' should be defined in the Glossary in a manner which enables assurance.
035	Eliminate the words ‘in the view of senior management and those charged with governance‘, since the framework is in paragraph 5.17 already sufficiently clear on who is responsible for producing the <IR>. We fear that adding their perspective within the definition may be interpreted as providing a higher than intended degree of freedom in judging whether a matter is material to the primary user.
071	Consider … additional process of determining the materiality with employees who are more in sites and can recognize and diagnose the material aspects to suggest.
078	The phrase ‘in the view of senior management and those charged with governance‘ should be deleted, since paragraph 5.17 of the framework is already sufficiently clear on who is responsible for producing the <IR>. It is also not consistent to refer to responsible management or individuals in section 3D only. Given the importance of corporate control and risk control for companies and the impact of these issues on the strategy and revenues of a company, … this determination process is the responsibility of the Chief Risk Officer or Chief Financial Officer.
108	The references to the views of senior management and those charged with governance are superfluous because it can be taken for granted that the preparers of the reports will be influential.
113	… the process must be monitored and validated by the teams responsible for the governance and internal and external audits, not only by senior management. The participation of all those involved in this process would make the information more transparent and balanced in accordance with the purposes of Framework.
124	… the words "senior management and those charged with governance" mentioned under 3D (3.23, 3.24) of guiding principles may be substituted by the word "Organization". It is implied that top management of the organization (ref - 4.5 and 5D) is responsible for the content and quality of the report. Hence, there is no need to write it again for materiality determination, separately.
164	The Consultation Draft refers to both “senior management” and “those charged with governance” as being responsible for setting the materiality threshold for the integrated report. The Consultation Draft does not include a description as who they envisage would be included in “senior management” and we recommend that the Consultation Draft consider aligning “senior management” with “key management personnel” as defined in the International Accounting Standards, IAS 24, Related Party Disclosures so as to avoid introducing a new “management description” into corporate reporting.
235	Senior management should include a broad spectrum of those employed within an organisation at senior level - including those with remit for communications.
238	Delete the reference to senior management and restrict it to only those charged with governance – the onus must be of those charged with governance to independently assess materiality without being influenced by the senior management.
262	As materiality should be defined by top management and governance responsible, it is important to give the (full) conditions for these people to have a broader and more comprehensive vision of the several factors that influence the creation of value. In order to adopt the integrated thought, it will depend on the information and knowledge exchange between different departments of the same company. The sustainability area, for example, can contribute with relevant information some decision-making process.
271	The structure of the framework appears to commit senior management or those charged with governance to playing a fundamental role in producing an IR. Although it would be ideal for these individuals to play such a role, clarity needs to be provided in terms of whether this is an ideal state or aspirational goal as opposed to a requirement, particularly with regards to materiality. (E.g. 3.23 a matter is material if, in the view of senior management and those charged with governance… Or in 3.32 Senior management and those charged with governance exercise judgment in deciding whether…). A statement or acknowledgement related to the likelihood that <IR> is a process and evolution, and that this is an aspiration to have sign off at this level could be provided for clarification and context.
287	Regarding 3.23: “senior management” considered unnecessary words.
303	Materiality should not simply be applied at a corporate level – processes for identifying material issues should ensure strong links between operational and corporate level perspectives on materiality.

definition or use of 'materiality'	
024	Materiality is a well-established concept in accounting and auditing (it is defined in IFRS and US GAAP, for example, and also by auditing standards – see ISA 320). Although the nature of some of the information to be presented in an integrated report differs from that for financial statements, it may be useful to have a definition align the concept more closely with that used by accounting and auditing standards than has been proposed in the wording of the definition in paragraph 3.23. However, there are two issues that have been identified with the definitions used by accounting standards: 1. At variance with the definition in auditing and assurance standards, they do not include omissions as misstatements, and 2. they double up on the probability threshold by using the word "could" in connection with "reasonable expectation". Proposed definition for financial reporting: "Misstatements, including omissions, are considered to be material if they, individually or in aggregate, are reasonably expected to influence the economic decisions of users taken on the basis of the financial statements as a whole." The IIRC definition does not consider the interaction of information – i.e., information alone may not be material, but it may be so in conjunction with other information (the aggregation aspect noted in the financial reporting definition). It is also unclear to us whether information in the integrated report would be considered material on its own or in relation to the integrated report as a whole. Transposing this definition to the IIRC definition so that the word "could" is deleted and to take into account the aggregation issue, the IIRC definition would read: "A matter is material if, in the view of senior management and those charged with governance, that matter is, either individually or in conjunction with other information in the integrated report, of such relevance and importance, such that it is reasonably expected to influence assessments of the primary intended report users with regard to the organization's ability to create value over the short, medium and long term [taken on the basis of the integrated report as a whole]. It is unclear whether materiality is to be considered in relation to the integrated report as a whole.
025	Re-define and update reporting beyond obsolete terms "material" and "materiality".
108	With a suitable modification to allow for non-financial matters, the IASB's definition could be a suitable working definition to reduce the number of authoritative definitions. A suitable revision to the IASB definition could be: "Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity the organization".
132	The ICGN's Statement on Non-financial Business Reporting (2008) states that: "Non-financial business reporting is material if it might reasonably be expected to affect investors' decisions about the acquisition and sale of shares or the exercise of ownership rights and obligations." This is closely consistent with the IASB's approach and intent within the existing elements of the conceptual framework. The IR framework has to be flexible enough to accommodate statutory obligations regarding materiality in different jurisdictions. Using pre-existing language and approaches will assist in this endeavour.
153	The definition of Materiality is essentially the traditional definition of risk and is too limited. Materiality could be redefined in language that is more understandable to the provider of financial capital.
194	The materiality definition should not only take into account the impact on the reporting organization but also the positive and negative impacts (BY) the reporting organization in order to have a balanced picture of current and future risks and opportunities.
227	Paragraph 3.21. The use of the word "materiality" has an implication of application to quantified amounts and might be better replaced by the term "significant relevance" as more appropriately applied to concepts and intangibles.
246	Paragraph 3.25: There may be legal limitations regarding forward-looking statements and targets in a financial document. Paragraph 5.11: The process appears to be risk-based, i.e. on likelihood and consequences of matters affecting value creation. Thus it is difficult to justify confusing readers by referring to this as an approach to materiality given its equivalence to enterprise or other risk management approaches. To avoid confusion, it would be better to either adopt the language of risk here or ensure the materiality approach is more aligned with sustainability reporting.
248	Using a word such as "priorities" instead of "materiality" (which is imbued with years of regulatory implications) may make the <IR> concept less difficult for companies to adopt.
287	Regarding 3.23, I am not comfortable with the term primary-user (who is this, it implies there are secondary users ... and who wants to be a secondary user). I am also concerned about a lack of clarity around footnote 5 - 'Importance refers to both nature and magnitude' and the use of unnecessary words (senior management). Under risk management you tend to always sit magnitude beside probability. I suggest you might want to change 'importance' to magnitude, and add nature and add probability (likelihood) -something like: New definition - 'A matter is material if, in the view of those charged with governance, that it could substantially influence the assessments of the report-users with regard to the organizations ability to create, capture and deliver value. This means those charged with governance of the entity must consider effects on all types of stakeholders in terms of the level of uncertainty (probability), the level of magnitude (the impact) and the time scale (short, medium or long term and whether those effects can be reversed), when determining what is material and what is not.'

definition or use of 'materiality'	
303	There is increasing convergence between the perspectives of a wider set of stakeholders and the providers of capital on what is material (at least those providers of capital who are likely to be interested in <IR>). Even if the definition is not changed at this stage of the <IR> Framework, it would be worthwhile acknowledging this increasing alignment.
326	It is not the role of the IIRC to define materiality. The IIRC can provide guidelines for consideration in determining what matters are discussed in an integrated report without having to provide a new definition of materiality. As a principle fundamental to financial reporting, materiality has been defined by many standard setters and regulators for such application. In the case of publicly listed companies in Canada and the United States, the identification of an item as material under the applicable regulatory regime drives not only specific disclosure requirements, but the company's liability for its disclosure. Broadening of the definition of materiality presents potential regulatory and legal implications, especially where there is a lack of alignment between material matters as defined under the integrated reporting framework and the regulatory reports (e.g., 10-K in the US) required to be filed. In particular, companies will make disclosure determinations based on these regulatory regimes. Until this potential conflict has been adequately addressed, we believe there are significant problems with the IIRC proposing any definition of materiality. More specifically, we suggest the IIRC consider whether use of this term is necessary in this context, or whether another term may be more descriptive of what the Consultation Draft is trying to convey and address; i.e., recommended guidelines a company may consider in determining what matters to discuss in an integrated report.
336	The definition can be more simple. An issue is considered material, if it can affect the company's strategy, its business model or its capacity to generate value at a short, medium or long term.
342	The definition of materiality used by the International Accounting Standards Board (IASB) is: 'Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity' (2010 Conceptual Framework, QC11). The reference to 'financial information' is too restrictive for <IR>, but it is suggested that, apart from a necessary modification on this point, the framework should adopt the IASB's definition.
conciseness	
027 171	The term 'Concise' should be defined in the Glossary in a manner which enables assurance. A report should not qualify as being in accordance with the <IR> framework if it is not concise. To aid judgment of this point the IIRC should identify reports on its database which it considers to be concise. It should then require, as a documented internal process, that preparers of integrated reports compare their report length with those of 'concise' reports of peer group companies on this database. Should their report be significantly longer than the peer group ones they should rationalise why they still consider it to meet the <IR> concise requirement.
101	With reference to conciseness, it appears that there's currently a tension between transparency and conciseness. At what point is there too much detail? And where does that information go? In a supplementary report? Is the framework suggesting that an integrated report should be a lot shorter than an annual or sustainability report? If so, how short would this be? Is it an eight-page document, for example?
119	There is an issue inherent with the word 'concise'. To be concise requires links to other documents. This implies that this is a summary document?
139	Based on the South African experience, some regard IR as having a short summarized integrated report of 80 to 120 pages. A summarized set of financial statements is included, and summary of the sustainability report and perhaps references to the audit report and sustainability assurance report. This short version document (IR) might then refer to the full financial statements available on the website, the full sustainability report, the audit and assurance reports, and others. Others reading the same guidelines interpret them as requiring a "full" and thick and complete IR - some even still have the summary IR, as well as this thick one ranging between 300 to 500 pages generally. Some regard this thick document as sufficient, others refer to more complete documents and reports.
145	It is unclear what criteria could be applied to consider whether a report is or is not concise. It adds to the complication that part of a report could be considered concise while the rest may not. Furthermore, is there a consequence if a report considered not concise? Will this report be considered not prepared in accordance to the IIRC framework?
173	Paragraph 3.29: Conciseness. It is uncertain whether 'conciseness' should be included due to the following reasons: a) There is some doubt on how 'conciseness' can be assured, and b) It is recognised that the aim of including 'conciseness' is to help make sure reporters do not try to bury readers in meaningless/redundant text to cover up for lack of substance. However it is believed that over time, readers will have less time to read the increasing number of reports and become sophisticated enough to judge whether the report is being unnecessarily long-winded in place of material substance.
273	Paragraph 3.29 (3D): The concept of "Conciseness" needs to be better developed, because this will be a key issue for <IR>.
intended audience	
125	Broader definition of "Providers of Financial Capital": One concern regarding providers of financial capital as the primary intended user is that it is too narrowly defined to be used by all types of business structures (Section 1.6). To encourage uptake of the Framework among companies ranging from SMEs to publicly listed multinationals to state-owned corporations, it is important that the language surrounding "providers of financial capital" be flexible to meet their diverse needs.

definition or use of 'materiality'	
131	If the intended users are short term investors, then changes to some of the capitals may not be seen as material. Thus, it is suggested that an additional clause be added to read: "substantively affect the assessment of a provider of capital of their intention to continue to provide capital to the company."
183	The consultation draft states that the primary audience for the integrated report is the "providers of financial capital" with the framework being intended "primarily for application by private sector, for-profit companies of any size, but it can also be applied, adapted as necessary, by public sector and not-for-profit organisations". The assertion that the "providers of financial capital" are the primary stakeholders should be explained more clearly. Singling out the primary audience as being "providers of financial capital" may be a pragmatic solution to assist preparers in determining what information is material to the users and therefore what content should be included. Further, as providers of financial capital will not be the primary audience for all organisations - additional guidance will need to be provided for smaller private and public sector organisations, in terms of how one addresses the needs of different stakeholders.
193	For clarity, the requirement at paragraph 3.22 could be amended to read "An integrated report should provide concise information that is material to the intended audience for assessing the organization's ability to create value." Given that the intention is for a company to provide information that is material to the assessment BY OTHERS of the organization's value creation potential, it is strange that paragraph 3.23 identifies a matter as being material if it is of relevance and importance to the senior management and those charged with governance. Perhaps it would be more helpful to say in paragraphs 3.23 and 3.24 that management and those charged with governance should work on the presumption that matters are, by definition, material to the intended audience if they affect or have the potential to affect the organization's strategy, business model or one of the capitals it uses.
219	If senior management and those charged with governance are to refer to the assessments of the intended user, they should also seek to obtain their views or by other means assess their expectations, include them in their determination, and seek feedback on whether the appropriate materiality thresholds have been set. However, the section on determining materiality does not address involvement of intended users. This section could usefully be expanded to include this notion.
249	Include the following in 3.23: "The primary intended report users are providers of financial capital" (from paragraphs 1.6-1.8). The description of the 'Materiality and conciseness' Principle (3D) does not mention the focus on financial capital providers when assessing materiality.
287	Paragraph 3.23. Discomfort with the term primary-user (who is this, it implies there are secondary users ...).
other stakeholders	
123	The connection between materiality and stakeholder input needs be made stronger. Acknowledging that stakeholder responsiveness is covered in 3C, paragraph 3.23 of section 3D may give the impression that senior management and the governing body are determining materiality in a vacuum.
125	There needs to be explicit reference to stakeholder engagement in the materiality determination process.
173	Perhaps a cross reference to paragraph 5.8 should be included in Section 3D.
194	There is a need for further elaboration on whether the IIRC is aiming at a materiality matrix, composed of the various stakeholder expectations or whether the materiality check should be limited to the main value creation processes of the organization (see Background Paper on Materiality, see section "Intended users of integrated reports", p. 1-2). The process of determining material matters has to take into account both perspectives: the perspective of relevant stakeholders (this of course includes providers of financial capital) and the assessment of senior management and those charged with governance.
208	In paragraph 3.24, consider including that stakeholders should also contribute to the identifying a material theme. Rewriting paragraph 3.24, it should be: to determine whether a theme (or aspect) is material, the top management, those who are charged with governance and stakeholders should consider if the topic significantly affects or has the potential to significantly impact the organization's strategy, business model or one more capital. In addition, it has to consider if the aspects affect in the short, medium or long term.
249	The application of the 'Stakeholder responsiveness' Principle (3.13 -3.21), as proposed in conjunction with the 'Materiality and conciseness' Principle, warrants further explanation.
255	In the items 3.23 and 3.24, it should be clearer that the materiality process defined from the perspective of the organization (senior management and those charged with governance) should consider the perceptions and interests of the stakeholders and the context of sustainability in which the company operates.
275	The IR process could require disclosure of the stakeholders who provide input into the materiality determination process to encourage consultation beyond the original providers of financial capital. The process outlined in 5B does not make any reference to consulting stakeholders when determining what is material, even though it is recognized elsewhere that stakeholders have an important role to play…
materiality assessment diagrams	
087	We suggest that organizations map their material items in a matrix showing on one axis the relevance to the organization and on the other axis the relevance its stakeholders.
128	The materiality matrix should reflect a "three-dimensional" axis (considering triple bottom line), i.e., besides internal and external, indicate where the impact is generated. One possible solution would be to keep the two-dimensional proposal, but complement it with a table correlating the issues identified as material to the various links in the business model.

definition or use of 'materiality'	
153 228	A matrix of impact on value compared with the impact on stakeholder could be more appropriate.
170	The section on materiality is based in a 'likelihood of occurrence v. effect' decision frame. This is a useful starting point. It may also be useful to differentiate the 'effect' element into breadth of stakeholder effect and intensity of effect on fewer numbers.
194	There is a need for some further elaboration on whether the IIRC is aiming at a materiality matrix, composed of the various stakeholder expectations or whether the materiality check should be limited to the main value creation processes of the organization (see Background Paper on Materiality, see section "Intended users of integrated reports", p. 1-2). Consider re-labelling the two axes (see figure 6, p.31). The model with the axis labels "Magnitude of effect" and "Likelihood of occurrence" very much focus on risk minimization. Other materiality matrices (like the definition of GRI G4) consider a broader stakeholder perspective and a balanced approach of current and future risks and opportunities (not only impact on but also impact of reporting organizations).
273	Paragraph 5.3 (5B): Add a graphic element to the "Materiality determination process" diagram (maybe an additional box) for "stakeholder viewpoints", showing that this element should permeate the entire process used to determine materiality.
reporting over time frames	
098	It should be considered whether the 'medium term' makes it overly complicated. Only include medium term when material, and otherwise just apply short and long term. This comment applies throughout the consultation draft which could be simplified and strengthened by only referring to short and long term. If an organisation finds it material to have three or more time horizons they can choose so, but it should up to the individual organisation to define what is relevant for them depending on the nature of their business.
104	The approach to materiality could be revised to reflect the primary focus of <IR> on issues that affect organizations over the longer-term (1.8), and so to give greater weight in materiality decisions to the assessments of providers of financial capital with a longer-term horizon.
108	In paragraph 3.23 there is reference to value creation over the short, medium and long term. However, the Framework does not encourage preparers to consider reporting information using these time ranges in sufficient detail. Instead the Framework refers to "value creation over time" in other sections. It may be helpful to an investor to know that a company plans to develop value from a particular capital in the long term, rather than the short term. An investor could then determine whether the timing of the value creation meets their investment needs more broadly.
155	In the context of the integrated reporting framework the definition will be made even more challenging by the focus on how companies will create value in the short, medium and long term (paragraph 3.22). This is addressed in paragraph 5.5 and will be closely related to assessing the magnitude and likelihood of occurrence of future events. This is an important aspect of the materiality definition which differs from the way materiality is assessed in the context of historical financial statements. It should therefore be drawn out more prominently and located in section 3D.
215	The materiality approach should refer to providers of <u>long-term</u> capital. Paragraph 3.24: Should also reflect the organization's ability to "create value over time".
271	The three time frames are unique to each company, so a stronger definition of what these time frames mean could support comparability.
355	It is not clear how the IIRC materiality assessment distinguishes between the different time-horizons (short, medium and long-term).
judgement	
146	Any reference to materiality should refer to the role of professional judgment in making a materiality assessment. Materiality is not an exact science so it is important that both users and preparers of an integrated report understand the role of professional judgement in materiality.
155	Include disclosure of key judgements made rather than simply the process.
185	A material assessment may need to refer to a broad range of users to inform the determination of materiality for the purpose of an integrated report. It is important that any reference to materiality refers to the role of professional judgement in making a materiality assessment.
219	Include Likelihood and Professional Judgement. The second bullet of paragraph 3.25 drops a very important modifier that is included in paragraph 5.3: likelihood. Taking into account the likelihood of an event is very important in determining its potential materiality and hence should be incorporated into both paragraphs. In addition, the Framework should emphasize that assessing materiality requires professional judgment, as both quantitative as well as qualitative criteria should be taken into account. For example, management fraud is always a material matter even if the amounts involved are small.
243	Emphasize that determining materiality is a process that involves analysis, interpretation and judgement by senior management and board members (those charged with governance) and because humans are incapable of unbiased analysis, interpretation and judgement - although rationalist views think this a possibility - readers should be reminded that bias will always exist.

clarifications	
120	• The second bullet point under paragraph 3.25 does not include a reference to "likelihood of occurrence," which is an important modifier that is covered under paragraph 5.3. • For purposes of clarity and consistency, the second bullet point under paragraph 3.25 should be rephrased to "Assessing the importance of those matters in terms of their likelihood of occurrence and known or potential magnitude of effect on value creation." • Paragraph 3 from the IIRC materiality background paper should be brought into the Framework, as it provides preparers with an important frame of reference for how the definition of materiality for <IR> relates to approaches to materiality under related frameworks for financial reporting and sustainability reporting. • The sections of the <IR> Framework related to materiality should include a reference to the materiality background paper for preparers who may be looking for additional guidance.
125	One report: While this may not be feasible in the short term due to regulatory requirements and a potentially lengthy implementation process, companies would like the Framework to support the idea of an integrated report not as an additional publication but rather as an enhancement of an existing financial report. The language on this issue in the Framework is not sufficiently clear [Section 1.18: "It is anticipated that a stand-alone integrated report will be prepared annually..."]. Possible revision to Section 1.18: "It is anticipated that an integrated report will be prepared annually in line with the statutory financial reporting cycle, which may require companies to first make efforts to align internal data management systems with the financial reporting cycle."
219	The second bullet of paragraph 3.25 drops a very important modifier that is included in paragraph 5.3: likelihood. Taking into account the likelihood of an event is very important in determining its potential materiality and hence should be incorporated into both paragraphs.
234	Paragraph 3.25 indicates that determining materiality involves identifying matters that 'could' have a future effect. This implies that matters should be identified and considered even if they are remote, which seems to create the potential for excessive disclosures. In section 5.11, the use of the words 'large' and 'small' does not sit well when defining materiality. These terms are vague and can lead to ambiguity around qualitative explanations.
description of 'matter'	
062	There is no definition of "matter". It seems like it could be something that "happens" or should it be seen as a KPI/measurement? Is there a relation to share-price sensitive "matters"? It is also not clear how many such "matters" there could be. Our understanding of the draft Framework is that it indicates a high threshold for materiality, i.e. that a "matter" will impact the strategy, the business model, or have substantial effects on the capitals, and/or the assessment on how to create value. This is however not clear and this issue therefore needs to be developed further. (*Editor's note: Matter is defined in Footnote 4)*
154	In the materiality determination process - i.e. 3.25 & 5B (assessing of the importance of those matters) - the <IR> Framework should add the notion of combined matters: specific information can become material with the addition of other information.
155	Section 5B does not address the possibility that the combined effect of individually immaterial items might still be material. The need to consider this possibility should be built into the determination process.
205	We propose that the IIRC include a requirement on the materiality determination process in paragraph 3.25 of the Consultation Draft to consider individual matters which are immaterial, but when they are combined they will be material.
simplification	
057	Section 3.23 provides no value. Section 3.24, along with the process explanation in 5B, do a much better job of defining materiality.
086	The GRI concept of materiality is more clear and practical.
182	Section 3D places a useful focus on senior management and those charged with governance, but needs to use plain language.
204	Once read carefully in its entirety, the guidance document would lead to a definition of materiality with which we would be comfortable. However, it is not as direct and concise as it needs to be. It still leaves too much room for interpretation…
unlisted entities	
125	Broader definition of "Providers of Financial Capital". One concern regarding providers of financial capital as the primary intended user is that it is too narrowly defined to be used by all types of business structures (Section 1.6). To encourage uptake of the Framework among companies ranging from SMEs to publicly listed multinationals to state-owned corporations, it is important that the language surrounding "providers of financial capital" be flexible to meet their diverse needs.
182	Some public sector reporting is extensive and does not always successfully highlight the material issues well. The Framework therefore has real potential to support significant improvement, through the application of its approach to materiality. Paragraphs 3.44 and 3.45 are examples of where the framework does not translate well into a public sector scenario.
224	The definition of materiality is acceptable in the context of private sector, for profit organisations; when applied to public benefit organisations, then further work is required to clarify differences in regard to 'the primary intended report users' and 'ability to create value'
355	For public companies, the target audience for the annual report will be its public owners. In order to better include these reporters the target audience should could be "owners and other providers of financial capital".

definition of 'substantively'	
058	Matters are deemed material if they substantively influence the assessments of the primary users of the report. In this definition is the word 'substantively' clear enough for users of the framework?
147	Paragraph 3.24: The phrase "potential to substantively affect" is very vague. It leaves too much up to the company to determine materiality, especially when determining what to disclose, as detailed by 3.28. I can see situations where companies dismiss negative/unfavorable matters because they do not have the "potential" to substantively affect their business or strategy.
164	There may be a need to provide further clarity with respect to what is meant by "substantively" and how to determine if an item is likely to "influence the assessments of the primary report users".
investor language	
153 217	The providers of financial capital are interested in a return on financial capital via discounted future cash flows. Materiality could be redefined in language that is more understandable to the provider of financial capital.
228	In India - compliance is the primary objective of reporting not story telling. Indian investors are not interested in stories.
onus of assessment	
118	The text [in Section 3D] refers to senior management, but it is not clear that this is (also) an assessment by the providers of financial capital as primary target audience / report users. The Materiality Determination Process should include a statement on the participants in that process, and if providers of financial capital are the main participants.
196	If materiality is to be based on what is considered important to investors then why not ask them what is important as opposed to getting management to think on their behalf?
280	For clarity, the requirement at paragraph 3.22 could be amended to read "An integrated report should provide concise information that is material to the intended audience for assessing the organization's ability to create value." We believe there is an important nuance that perhaps needs to be explained. While materiality helps to determine what is necessary for the assessment of the company by the intended users, materiality is based on a judgement call made by the "senior management or those charged with governance" and not necessarily by the intended users. We think that good governance processes on definition of materiality will usually call upon the several company stakeholders to help define what is relevant for them. It is then up to management to justify what has been included as material, as well what has not been included as material.
value	
021	The approach should also include reference to value *preservation*.
122	Given that an Integrated Report is intended as an investor focused report, the information required to be included in an Integrated Report should be limited to matters relating to the judgements that would be incorporated into an investor's assessment of the intrinsic value of the business. The definition of materiality should provide explicit guidance that an Integrated Report is only required to address issues and disclosures (whether financial or non-financial) that would reasonably be expected to influence an investor's assessment of the intrinsic value of the business (that intrinsic value being represented by the discounted value of the future returns that the business is expected to generate).
126	This definition focuses only on positive side of value, by using the phrase "value creation". Any business activity may damage the existing values and decrease the total value. Materiality determination process needs to incorporate positive and negative impact for internal and external values.
definition or use of 'importance'	
131	It is stated that materiality depends on both relevance and importance; and importance, in turn, refers to the nature and magnitude of the matter (see footnote 5 on p.21 of the Consultative Draft). However, in 5B, importance is more explicitly defined as a combination of the magnitude and likelihood (not nature) of the matter. This could potentially create some confusion.
212	The terms "significance" and "importance" are used throughout the Framework but the difference between them is unclear. It is suggested to clarify the difference in the glossary or use one consistent term throughout the Framework.
flexibility	
051 076	During the early stages of <IR>, elimination of the following phrases will provide flexibility and allow progression: Paragraph 3.24. CHANGE PROPOSED: Eliminate "or has the potential to substantively affect" Paragraph 3.25: CHANGE PROPOSED: Eliminate "potential effect" in both last bullets Paragraph 3.27: CHANGE PROPOSED: Change " annually" for "PERIODICALLY"

known versus unknown	
251	A clear distinction needs to be made between known and potential effects (5.6) and that companies should make their best efforts to provide quantitative information about known effects.
278	It is important to differentiate between the 'known' and the 'unknown' as it is impossible to discern materiality for an opportunity or risk not previously imagined (and so it would not be reported on in terms of possibility or impact.) The definition of materiality may require a conditional understanding that some issues may only prove to be material retroactively.
links to Framework concepts	
046	Further work is needed to link the "capitals" as defined in the CD (Section 2B paragraph 2.17) with the definition and use of materiality and the impact and relationship of an entity's capitals with its strategy. The connection between strategy and materiality is emphasized in the CD Section 3D paragraph 3.24 but not developed further in the CD Section 5 or elsewhere, Section 3D paragraph 3.24 of the CD refers to "capitals" when considering whether a matter is material (substantively affects), but does not explicitly link the capitals to the entity's strategy and business plan and hence to value creation for the stakeholders of the entity. This link should be further developed in the Framework. The identification of relevant capitals in an entity should commence with an evaluation as to whether the employment of these capitals adds value or alternatively, contributes the protection of value in an entity.
249	The application of the 'Stakeholder responsiveness' Principle (3.13 -3.21), as proposed in conjunction with the 'Materiality and conciseness' Principle, warrants further explanation. The application of the 'Materiality and conciseness' Principle (3D) is not clearly linked to the report elements in 2.2 and Section 4 (Report Elements). More explanation is needed on how the proposed 'materiality' analysis is expected to be used when defining specific parts of the content for the report elements 4A ('Organizational overview and external environment'), 4B ('Governance'), 4C ('Opportunities and risks'), 4D ('Strategy and resource allocation'), 4E ('Business model'), 4F ('Performance') and 4G ('Future outlook').
omissions and misstatements	
133	Para 3.23: A matter is material if it could substantively influence the assessments of the organization's ability to create value. Change the wording to include "its omission or misstatement" could substantively influence the assessments of the organization's ability to create value" (to align financial definition and AA1000).
170	Additional value could be further added by discussing the relationship between material inclusions & omissions and other information. Making explicit the need to ensure users can distinguish material information from 'extra' information will be critical to ensuring they are not bombarded with information overload.
annual assessment	
094	Both internal practice and user confidence could be enhanced through disclosure (para. 5.13) of changes in materiality between periods, with some form of narrative reconciliation of significant changes, recognizing that these are often matters of managements' professional judgment. As such, it is further suggested that assessing materiality at least annually should also be made [apparent] in 5B.
basis for conclusions	
014	The definition of "Materiality" (3.23 and 3.24) should include some reference to the basis of "the view of senior management"; for example, the basis of senior management's conclusions on materiality is evidenced through implementation of a process involving considered assessment and debate of robust and relevant information / analysis.
disclosure channels	
241	An additional comment about Section 3D falls under paragraph 3.28, which states that the material matters require disclosure, but says nothing about where such disclosure needs to be. Disclosure needs to be easily accessible to all stakeholders.
human capital	
264	In Section 3.10, add the following sub-bullet: "An analysis of human capital development and financial return on investment in terms of cross-cutting issues of gender equity, employee health needs, productivity, and morale."
impacts	
194	The materiality definition should not only take into account the impact on the reporting organization but also the positive and negative impacts (BY) the reporting organization in order to have a balanced picture of current and future risks and opportunities.

prioritization

244 The concept of materiality discussed in the CD is complicated by the prioritization process it contemplates that includes a potential to reassess the materiality threshold. The described process suggests that when applying the Framework, the quantum of material matters found by an organization could be larger than they should be. If that is the case, the materiality approach is not working. The CD focuses too much on materiality whereas identifying, assessing and prioritizing are probably the more relevant concepts. The Framework did not provide enough information to help differentiate and prioritize items. This section needs to be reframed in terms of prioritization and more guidance should be provided to help an organization determine the key items to report in an integrated report.

quantification

147 Paragraph 5.8: There should be an explicit bent towards quantifying assessments when possible.

reliability

114 Recommend the following underlined changes to 3.31: "The reliability of information is affected by its balance and freedom from material error. Reliability is enhanced by mechanisms such as effective governance, robust internal reporting systems, an internal audit function which conforms to the IIA's professional standards, appropriate stakeholder engagement, and independent, external assurance."

thresholds

311 The threshold for inclusion of information in an integrated report should be determined by reference to the potential effect on strategy, the business model, performance and the capitals. Therefore, the threshold for inclusion in an integrated report will probably not be the same as that determined for financial or non-financial reporting; accordingly, it would be helpful for the Framework to acknowledge this explicitly. The Framework should require that changes in the assessment of the threshold or the policy for its determination should be explained.

typographical error

103 Correct spelling of "occurrence" in chart on page 31.

other

120 There is an opportunity for the Framework to provide further clarification that the materiality process does not just relate to what topics should be disclosed, but also goes to what should be disclosed about a particular topic and in how much detail. Accordingly, additional guidance on identifying relevant matters might be brought into the framework, and should cross-reference framework guidance on completeness and reliability.

205

- Change the first word of the first bullet of paragraph 3.25 from "identifying" to "consider" as part of the materiality determination process.
- Link paragraph 3.25 to 5.13.
- Paragraph 3.28 links to paragraph 4.5, but should also link to paragraph 5.13.
- As materiality is discussed in the various sections of this Framework, the references to materiality in the various sections could be structured more clearly and they should be linked together so as not to cause confusion of what is required or not.

219 As the materiality level of the financial report is different than in the underlying reports, perhaps the integrated report should contain an explicit warning that some matters discussed can only be fully understood when readers also assess the more detailed information in the underlying reports.

249 The 'Materiality and conciseness' Principle (3D) is not clearly linked to the report elements in 2.2 and Section 4 (Report Elements). More explanation is needed on how the proposed 'materiality' analysis is expected to be used when defining specific parts of the content for the report elements 4A ('Organizational overview and external environment'), 4B ('Governance'), 4C ('Opportunities and risks'), 4D ('Strategy and resource allocation'), 4E ('Business model'), 4F ('Performance') and 4G ('Future outlook').

280 It is important to clarify the links between other definitions of materiality or other commonly used words to describe it, such as "relevance". For example, in IASB's conceptual framework, relevance is not part of the materiality process (as suggested by paragraph 3.25 of the <IR> Framework). Materiality is applied in order to constrain reporting of matters that have been identified as relevant.

326 While 3C speaks of the relevance of stakeholder engagement as part of the identification of matters, it may be useful to provide other sources or factors for consideration, such as:

- matters having financial implications (in short, medium or long term)
- peer-based norms
- legal or regulatory matters
- societal norms
- matters of corporate policy.

The Consultation Draft process for assessing importance is driven by an assessment of magnitude and likelihood of effect. We see the proposed approach as an event-driven and risk-based approach, and do not believe this to be comprehensive enough to cover the vast array of matters that could arise in the identification process. Further, we are not certain a single process for assessing importance can be applied across businesses and industries. We reiterate our belief that the IIRC should not be attempting to define importance of the matters but rather allow each entity the flexibility to determine their own process for assessing the importance of the matters relevant to them.