

ANALYSIS OF FRAMEWORK

CHAPTER 5: PREPARATION AND PRESENTATION -

INVOLVEMENT OF THOSE CHARGED WITH GOVERNANCE (Section 5D)

Question 17 and 18: Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

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

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 categorize comments into issues/themes and how to summarize 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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QUESTION 17

A – OVERVIEW

- A1 Out of the 352 responses reviewed for this objective analysis, 259 respondents (73%) provided comments in relation to Question 17. These responses came from a mix of stakeholders, from a mix of industry sectors and geographical regions.

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

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- A2 Report preparers provided 31% of responses from the responding population (259 respondents), followed by Professional bodies (17%), Providers of financial capital (10%), Assurance providers (8%), NGOs (5%) and other respondents (29%). Responses categorised by stakeholder group for Question 17 are in line with total stakeholder statistics across the entire population.
- A3 The geographical split of the responses is in line with geographical statistics across the entire population. There were no geographical regions that favoured this question over others in the Consultation Draft.
- A4 It has not been possible to categorise responses by industry sector as 60% of respondents declined to self-categorise.
- A5 A full breakdown of responses by stakeholder group and response category can be seen below:

STAKEHOLDER/ RESPONSE CATEGORY	REPORT PREPARERS	FINANCIAL CAPITAL PROVIDERS	PROF. BODIES	ASSURANCE PROVIDER	NGO	OTHER	TOTAL
FULLY AGREE	28 (26%)	19 (63%)	19 (33%)	15 (65%)	8 (35%)	44 (39%)	133 (38%)
AGREE WITH QUALIFICATION	17 (16%)	3 (10%)	10 (18%)	5 (22%)	2 (9%)	11 (10%)	48 (14%)
DISAGREE	24 (22%)	1 (3%)	13 (23%)	0 (0%)	2 (9%)	11 (10%)	50 (14%)
OTHER	10 (9%)	2 (8%)	3 (5%)	1 (4%)	1 (4%)	9 (8%)	28 (8%)
TOTAL RESPONSES	79 (73%)	25 (83%)	45 (89%)	21 (91%)	13 (57%)	75 (68%)	259 (73%)
NO COMMENT	29 (27%)	5 (17%)	12 (21%)	2 (9%)	10 (43%)	36 (32%)	94 (27%)
TOTAL	108 (100%)	30 (100%)	57 (100%)	23 (100%)	23 (100%)	111 (100%)	352 (100%)

- A6 Overall there was support for the requirement proposed in Consultation question 17, with approximately 70% of respondents offering a response to this question, either fully agreeing (51%) or agreeing with qualification (19%) that there should be a statement by those charged with governance acknowledging their responsibility for the report. The reasons for support included;
- The inclusion of a statement would show that those charged with governance acknowledge their responsibility for the integrated report.
 - A statement by those charged with governance would assist in ensuring the reliability of disclosures and/or the overall credibility of the integrated report.
- A7 The single largest concern raised by the respondents (both who agree and disagree with the question) was about the possible legal implications of requiring those charged with governance to acknowledge their responsibility for an integrated report in a formal statement. Many called for such a requirement to be consistent with equivalent or similar national or regional provisions.
- A8 The main reason given by those that disagree with the consultation question is that, if an integrated report is prepared in accordance with the Draft International <IR> Framework, acknowledgement by those charged with governance is already implicit in the publication of the report and no further statement is necessary.

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B – METHODOLOGY

- B1 All responses received were reviewed and classified into one of the following five categories;
- i. FULLY AGREE: Fully agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report.
 - ii. AGREE WITH QUALIFICATION: Agree that there should be a statement, but with one or more qualifications.
 - iii. DISAGREE: Do not agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report.
 - iv. OTHER: The response is unclear or offers general comments not directly related to question 17.
 - v. NO COMMENT: The respondent did not provide an answer to this consultation question.
- B2 Once the initial classification was completed, further analysis was performed to identify common themes raised by respondents. The themes are summarised below for each of the categories of respondent listed in paragraph B1.

C – FULLY AGREE WITH CONSULTATION QUESTION

- C1 Respondents in this category fully agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report.
- C2 As seen in the statistics above 50% of those that responded to this question (38% of the total population of respondents) fully agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report.
- C3 Those that fully agree represent a mix of stakeholder perspectives, the key groups (calculated as a percentage of the 133 responses in full agreement with the question) being;
- Report preparers 21%
 - Professional bodies 14%
 - Providers of financial capital 14%
 - Assurance providers 11%
 - Other & NGO 39%
- C4 The reasons given for support for inclusion of such a statement can be summarised into five main themes;

KEY THEME	% of respondents	DETAILED EXPLANATION
Responsibility	26%	The inclusion of a statement would show that those charged with governance acknowledge their responsibility for the integrated report.
Reliability and/or credibility	21%	A statement by those charged with governance would assist in ensuring the reliability of disclosures and/or the overall credibility of the integrated report.
Accountability	17%	A statement would increase the level of accountability faced by those charged with governance for the content of the integrated report.
Consistency with other reporting	11%	Sign-off by those charged with governance is already best practice or a mandatory requirement for other forms of reporting (i.e. Financial Statements) and should also be a requirement for integrated reporting.
Governance	11%	A mandatory statement would ensure the involvement of those charged with governance in the creation of the integrated report.
No further comment	8%	No reason was given for the expression of support.
Other	6%	Various reasons provided such as, to raise the profile of <IR>.

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D – AGREE WITH QUALIFICATION

D1 Respondents in this category agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report, but also offer further comment or qualifications in their answer. Where a reason for agreement was provided, it was consistent with the reasons discussed in section C. The analysis below therefore focuses on qualifications provided rather than the reasons for agreement.

D2 Those that agree with qualification represent a mix of stakeholder groups, the key groups (calculated as a percentage of the 48 responses that agreed with qualification) being;

- Report preparers 35%
- Professional bodies 21%
- Assurance providers 10%
- Providers of financial capital 6%
- NGO 4%
- Other 23%

D3 The qualifications provided by respondents can be broadly be categorised into the following themes;

KEY THEME	% of respondents
Need to consider the legal implications of such as statement	35%
Practical implementation guidance is needed	27%
Identify who should be providing the statement	10%
Concerns about reduced quality of disclosures (i.e., boilerplate)	6%
Other	21%

LEGAL IMPLICATIONS

D4 In principle the respondents agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report. However practically they have concerns over how such a statement would be interpreted and applied in each jurisdiction and whether this would lead to increased legal responsibilities, liabilities or exposures for those concerned, or other implications not considered by the Draft Framework.

*"...any requirement for those charged with governance to provide such a statement should be consistent with requirements or restrictions within the relevant jurisdiction (s) within which a company operates."
(BT Group PLC, #247)*

D5 Additionally although they support the inclusions of a statement, many respondents express the view that the legal implications of doing so might become a barrier to the adoption of <IR>.

PRACTICAL IMPLEMENTATION GUIDANCE

D6 Refer to Section G for discussion on practical implementations.

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WHO SHOULD BE PROVIDING THE STATEMENT?

- D7 Questions are raised about who should be making the acknowledgement. Should the statement be made by “those charged with governance” or another party such as; senior management, management, CEO, CFO, <IR> Committee or <IR> department?
- D8 Others are not clear on exactly who “those charged with governance” are and who would be making the statement. For example would it be the CFO, CEO, or a controller that is actually providing the statement of acknowledgement?

REDUCED QUALITY OF DISCLOSURE

- D9 The inclusion of such a requirement might have a negative impact on reporting by limiting the information that is disclosed in an integrated report, particularly forward-looking and strategic information, where the governing body may be concerned about potential liability in the event that the matters specified do not eventuate. Similarly concerns were expressed about reporting on matters where information is directionally correct but where exact values are contentious (e.g. natural capital).

OTHER

- D10 The remaining respondents raised concerns, asked questions or provided suggested wording amendments. The points raised included:
 - The need for clarification of the relationship between the statement by those charged with governance and third party assurance of the report;
 - Whether the objectives of requiring the statement would be better achieved by also or alternatively requiring disclosure of the process that has been followed to prepare the integrated report;
 - How to connect the statement from those charged with governance with the requirements on strategic focus and future orientation in paragraph 3.2 of the Consultation Draft, the requirement to disclose the governance body with oversight for <IR> (paragraph 4.5) and the application of integrated thinking (paragraph 1.15 – 1.17).
- D11 One respondent argued that the statement should in the long term be mandatory provided that there is enough feedback from both the Business and Investor Networks to justify the practicality and usefulness of such a requirement.

E – DISAGREE

- E1 Respondents in this category do not agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report.
- E2 As seen in the overall statistics, 14% of respondents do not agree that there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report.
- E3 Those that disagree are primarily represented by report preparers and professional bodies. A full breakdown of response by stakeholder group is provided below (calculated as a percentage of the 50 responses that disagreed with the question):

▪ Report preparers	48%
▪ Professional bodies	26%
▪ Providers of financial capital	2%
▪ Other	20%

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E4 The reasons given for disagreement over the inclusion of such a statement can be summarised into five main themes;

KEY THEME	% of respondents
Those charged with governance are already responsible for the report	24%
Creation of additional liability / legal concerns	22%
Provided suggestions	12%
Data already covered by other reporting frameworks	8%
Reliability of non-financial information	6%
Boiler plate disclosures	4%
No comment	4%
Other (see section D above)	20%

THOSE CHARGED WITH GOVERNANCE ARE ALREADY RESPONSIBLE FOR THE REPORT

E5 The rationale for this objection to question 17 is that paragraphs 4.5 and 5.17 of the Draft Framework already impose responsibility for the integrated report on those charged with governance. A statement confirming this is therefore unnecessary.

E6 Under the existing processes as described by the Draft Framework, the governing body must be identified and they have ultimate responsibility for both the process of <IR> and the integrated report, per paragraph 5.17 of the Draft Framework: "Those charged with Governance have ultimate responsibility for how the organization's strategy, governance, performance and prospects lead to value creations over time. They are responsible for ensuring that there is effective leadership and decision-making regarding <IR>, including the identification and oversight of the employees actively involved in the <IR> process (e.g., those involved in identifying material matters, and in collecting, accumulating, measuring and reporting material matters.)"

E7 In addition to this, as required by paragraph 4.5, an integrated report should identify the governance body with oversight responsibilities for <IR>.

E8 If an integrated report is prepared in accordance with the Draft Framework, then an acknowledgement of those charged with governance is already implicit in the publication of the report and no further statement is deemed necessary. The reader should be able to assume that those responsible have carried out their obligations.

E9 Additionally in the wider reporting environment, governing bodies are generally already responsible for the documents they produce.

CREATION OF ADDITIONAL LIABILITY / LEGAL CONCERNS

E10 There is a general concern about how the inclusion of such a statement would impact those responsible for providing it, either through the creation of additional liability or legal implications. Respondents who raised this objection suggested that companies should follow local legislation about the responsibilities of those charged with governance.

E11 Uncertainty over the creation of additional liability or legal concerns was also one of the main qualifications given by those that agreed with the consultation questions.

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E12 Respondents also said that:

- The Draft Framework needs to recognise that entities are working under different legal frameworks and the legal responsibilities that arise from an integrated report are dependent on the law in that particular jurisdiction.
- The inclusion of such a statement might in some jurisdictions create a legal liability for the individuals involved.
- It is difficult to acknowledge responsibility for areas beyond those defined by regulatory requirements.
- The inclusion of such a statement could create an additional liability for executive and/or non-executive directors and thus act as a barrier to adopting <IR>.

DATA IS ALREADY COVERED BY OTHER REPORTING FRAMEWORKS

E13 The information in an integrated report may already have been reported elsewhere as part of existing statutory requirements, such as the annual report or sustainability report, where those charged with governance will have already provided a certain level of acknowledgement and responsibility for the information.

E14 If the integrated report is a summary of information from other reports, any certification already given by those charged by governance in respect of other reports can be referenced in the integrated report rather than repeated. Respondents who raised this concern are keen to limit any additional assurance requirements given the cost and potential duplication involved.

RELIABILITY OF NON-FINANCIAL INFORMATION

E15 Respondents who raised this concern said that there are large uncertainties associated with the non-financial information that would be included in an integrated report. Currently this information is not sufficiently reliable to be subject to a statement of responsibility. Furthermore, non-financial information that is sufficiently reliable to be published is already included in other mandatory reports and communications and follows the acknowledgement requirements of those regimes.

F – UNCLEAR ON POSITION

F1 The remaining respondents did not offer a clear answer on whether they agreed or disagreed with the consultation question, rather comments provided spanned across a variety of areas and concerns.

F2 Examples of the types of comments offered include:

- Need to ensure that top management and those charged with governance are involved in <IR>.
- Integrated management, integrated thinking, processes, controls, third party verification and the clear identification of roles and responsibilities must supplement and complement any statement made by those charged with governance;
- Whether there is really additional value or benefit to gain from having a statement;
- Companies are not ready yet for such a statement;
- Need to more clearly define "those charged with governance";
- Need to acknowledge the range of national and regional operational practices that might affect the viability of making a statement.

F3 No further comments offered are considered to be of significant importance or quality that they would impact the direction of the development the Framework.

G - SUGGESTIONS PROVIDED

- G1 Throughout the responses, practical suggestions are made to assist with the development of the Framework. These suggestions come from all categories of respondents (fully agree, agree with minor qualification, disagree) and have been summarised below, rather than throughout the individual sections of this document.
- G2 The following are suggestions provided by respondents as to how the acknowledgement statement could be implemented;
- Acknowledgement should be done through a simple process, such as through a reference in the CEO or Chairman's letter or in the board of director's report.
 - The format should be similar to statements acknowledging responsibility in the current Corporate Governance statement of the Annual Report.
 - Acknowledgement should be demonstrated by signing the integrated report.
- G3 Rather than including a statement, some respondents said that it would be enough to identify the body (or people) within the organisation that are in charge of the integrated report, as well as the measures taken in order to ensure that the provided data are true.

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QUESTION 18

H – OVERVIEW

H1 Out of the 352 responses received to the Consultation Draft, only 79 respondents (or 22%) provided comments in relation to Question 18. Of these 79 responses, report preparers were the single largest contributor. A full breakdown by stakeholder perspective is provided below:

Stakeholder perspective	Number and % of responses received	
Report preparers	22	28%
Professional bodies	16	20%
Non-Governmental Organisations	7	9%
Assurance providers	5	6%
Providers of financial capital	5	6%
Other	24	30%
TOTAL	79	100%

H2 The responses primarily focused on Section 5D, “Involvement of those charged with governance” and offered a mix of suggestions and comments. The key areas these comments focused on include;

- Definition and terminology
- The role of those charged with governance
- Legal liability
- Role of management verses those charged with governance
- Audit committees
- Engagement process

I – SUMMARY OF COMMENTS

I1 The responses can be grouped according to the following categories:

Response category	Number of responses
Suggestions or comments on Section 5D	45
General Support	4
Response incorrectly classified as a response to question 17 and moved to appropriate question	15
Comment not applicable to the development of the framework	15
No further comments provided	273
Total comments	352

SUGGESTIONS OR COMMENTS ON SECTION 5D

I2 Of the 45 responses in this category, 15 relate to Question 17. A similar mix of opinions is given in these responses as in Question 17. No new comments or concerns have been raised. Refer to analysis of Question 17 at the front of this report to discussion over key themes and concerns.

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Definition and terminology

- 13 There is concern and confusion about the definition of “those charged with governance”. Respondents feel that this term is variously too broad, too strict or not specific enough. Comment offered include:
- The framework should spell out that the Board is responsible for <IR> and value creation (submission 228).
 - The definition of those charged with governance is not consistent with those commonly used by other authoritative international organizations, such as IFAC or ICGN. This may create confusion among preparers and users of an integrated report, and it was suggested that the IIRC should consider aligning the definitions (submission 252).
 - It is necessary that the Framework defines better what is meant by “those charged with governance” (submission 263).
 - The statement about “the governance body charged with oversight of <IR>”, could be taken to imply that this may not be the same body as the governance body charged with oversight of the company and its other corporate reporting, i.e. the board (submission 295).
 - Guidance should provide details on how to identify the governance body with oversight responsibility for <IR> (submission 233).
 - The reference in the Framework to the involvement of those charged with governance should be expanded. It is important that the role of governance is acknowledged as being more than responsibility for strategy, performance and prospects, and should consider the audit committee and its role in the reporting process (submission 146).
 - One commentator (submission 071) suggested introducing the term “Chief Governance Officer (CGO)” instead of “those charged with governance” in <IR> framework. CGO is a senior executive reporting to the CEO who is tasked with directing the people, business processes and systems needed to enable good governance from inside the corporation in support of the board of directors.

The role of those charged with governance

- 14 A commentator (submission 113) recognised that the governance team should participate on the process of development, validation and presentation of the <IR>; however, they suggested that it should lie solely with the organization to define how governance engages with the Integrated Reporting process.
- 15 Those charged with governance need to be involved in the whole process <IR> from planning to final report preparation and issuance (submission 134).

Legal liability

- 16 Reflecting comments made in response to question 17, one respondent (submission 193) felt that there is insufficient acknowledgment in the Draft Framework that the actions and decisions of those charged with governance might already be influenced, constrained or dictated by governance provisions contained in laws or codes prescribed by national regulators and consideration should be given as to whether indicating responsibility for <R>increases potential liability for those charged with governance.
- 17 One respondent (submission 193) invites the IIRC to consider adding text or supplementary material to the framework that explains how those charged with governance should reconcile the duties imposed on them by national regulators with the expectations of Integrated Reporting.

Role of management verses those charged with governance

- 18 Since an integrated report requires reporting on corporate strategy, it is inappropriate and impossible to create an integrated report without the commitment of managers. Therefore, <IR> Framework should more clearly indicate the role of management and the need for their leadership in order to raise awareness on “integrated thinking” among managers and to encourage them to embed it within their management (submission 106).

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I9 It was also noted that more guidance/expectations on the role of senior management verses that of those charged with governance should be more clearly defined.

Audit committees

I10 The second bullet under paragraph 5.18 of the Draft Framework states that the governance body may include a statement "that it has applied its collective mind to the preparation of the integrated report and the information it contains". Usually, in light of the importance of an integrated report as a key communication with investors, the Board of Directors (or as delegated to the Audit Committee) is the governance body with these oversight responsibilities. However, it may not be practical for the Board or Audit Committee to collectively involve themselves in the preparation of the integrated report. They are usually charged with the responsibility to review/approve the integrated report. Therefore, the respondent making this point (submission 173) suggests replacing the word "preparation" with "preparation/review/approval" in the second bullet under paragraph 5.18.

I11 Additionally the sentence... "That it applies its collective mind ... it contains" is considered by one respondent (submission 138) to be rather vague.

I12 A respondent (submission 219) notes that the Framework does not mention audit committees, although they play an important role in many organizations with respect to business reporting, which could logically be extended to integrated reporting. The IIRC could consider adding the following paragraph: "The audit committee, in those organizations where relevant, on behalf of those charged with governance, should oversee the organization's integrated reports and reporting processes. It should also ensure that integrated reports are in accordance with policies, standards, and regulations. Therefore, it should meet with management and auditors and report regularly to those charged with governance."

Engagement process

I13 A respondent (submission 021) makes the following recommendation: In order to gain a measure of comfort that critical activities are being appropriately addressed at strategic, tactical, and operational levels, stakeholders commonly rely on various lines of defence to be in place and to operate as oversight layers within the organizations themselves. These internal lines of defence are responsible for providing stakeholders with a degree of confidence that the organization is operating effectively and in an appropriate manner. These five lines of defence operate as follows:

- The Board is responsible for overseeing the activities of the organization and is accountable to the shareholders for the organization's strategy and performance. This includes overseeing the activities of its standing committees and executive management.
- Executive Management provides assurance to the board that the objectives of the organization are being achieved by providing adequate oversight of those they manage and by ensuring that the organization's activities are consistent with business strategy and policies approved by the board.
- Independent Internal Assurance provides the board with a level of independent assurance in relation to the effectiveness of the activities of the other lines of defence - Examples include the audit committee and internal audit
- Tactical Oversight Functions monitor, facilitate, and coordinate the consistent, competent, adequate, and effective operation of defence activities established by operational line management. Examples include the compliance, risk management and control functions.
- Operational Line Management has responsibility for overseeing the daily operations of staff, services, practices, mechanisms, processes, and systems.