

Question 22 – OVERALL VIEW

ANALYSIS OF FRAMEWORK

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Question 22: Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization’s ability to create value in the short, medium and long term.

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 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.

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OVERVIEW

A1 As this was a general question regarding views on the overall appropriateness of the Framework, the responses varied widely. Of the overall comment letters received of 352, 70% provided a response to this question. For those responding, 73% either fully or mostly agreed that the content is appropriate. 19% indicated that they either disagreed or had serious issues with particular aspects of the Framework. 8% did not directly respond to the question.

A2 Statistics as a percentage of all respondents:

Category	Number of responses	% of responses
Fully agree	93	26%
Agree with qualification	92	26%
Disagree	48	14%
Other (i.e., unclear position)	21	6%
No response	98	28%
Total	352	100%

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

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A3 Statistics as a percentage of respondents commenting on Question 22:

Category	Number of responses	% of responses
Fully agree	93	37%
Agree with minor qualification	92	36%
Disagree/major qualification	48	19%
Other (i.e., unclear position)	21	8%
Total	254	100%

A4 As the statistics show, many respondents agreed with the statement in question 22 that <IR> will evolve over time. Recognising this, a number of comments referred to the Draft Framework as a “good starting point” (submissions 039 and 066), a “significant first step” (submission 094) and a “strong foundation for rigorous, transparent and comparable reporting” (submission 270) that will “evolve over time” (submission 132). Even those respondents that had criticisms of the Draft Framework “applauded the IIRC for starting the debate” (submission 022) and recognised it as “innovative” (submission 015). Some respondents said that the evolution would come from reflecting the innovation, experimentation and experience of reporting organizations in future iterations of the Framework (for example submissions 014, 037, 043 and 093). Others called for more direct intervention by the IIRC to clarify certain matters that they consider necessary to prompt the evolution and to reduce the complexity of the Framework as currently drafted.

A5 Suggestions made about what would be required to facilitate the evolution of the Draft Framework were very wide ranging. However, certain themes emerged which are consistent with comments made in response to other questions. The main themes identified by respondents were:

- **Balance principles-based approach vs. prescription** - finding the right balance between the principles-based approach currently reflected in the Draft Framework and more prescription so as to allow flexibility in the preparation of an integrated report whilst establishing a degree of conformity to enable comparisons to be made between corporate reports. Some respondents noted that this challenge applies to other forms of corporate reporting as well as <IR>
- **Examples and metrics** - respondents suggested that further prescription should be provided in the form of specific metrics for reporting and practical examples to illustrate <IR>
- **<IR>'s place in the existing reporting landscape** - many respondents suggested that the evolution of <IR> would, in part, be helped by greater clarity about how it fits into the existing reporting landscape, including how to reconcile current reporting requirements (legislative and otherwise) with aspects of <IR> that mirror those requirements; how to avoid duplication in reporting and how to use the <IR> Framework in conjunction with other reporting approaches and requirements;
- **Address complexity** - whilst recognising that <IR> is a complex subject, some respondents have commented that simplifying the Framework in terms of language, concepts and structure would assist the evolution of <IR>
- **Purpose of <IR>** - some commentators suggested that the evolution of <IR> would involve greater linkage between corporate goals and the external environment of risk and opportunity in which organizations operate
- **Assurance** – a number of respondents identified the development of an assurance model for <IR> as part of the process of evolution.

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B – BALANCING FLEXIBILITY AND PRESCRIPTION

- B1 Generally respondents favoured the Draft Framework's principles-based approach. However, concerns were raised by some about the potential lack of comparability that might result from a principles-based approach.
- B2 Examples of comments made by those calling for greater prescription include:
- "There is a risk that organisations meet high difficulties in preparing an integrated report by means of a principle-based approach. A more detailed format could be more appropriate and effective." (submission 015)
 - "We make points below regarding the structure and style of the Framework with a view to improving the ease of its use in practice. Any principles-based guidance will normally need some more prescriptive requirements in order to ensure that all necessary information is disclosed, it is essential that these are made clear in the guidance. The Framework contains some disclosure requirements that are embedded in guidance paragraphs (e.g. paragraph 5.24: Disclosures relating to the reporting time frames), making them difficult to identify. There are also examples of lists of specific disclosures where it is unclear whether that information is a requirement or just an example of the sort of information that might be considered for inclusion in an Integrated Report (e.g. paragraph 4.20: "An integrated report describes..."). We encourage the IIRC to ensure that the Framework more clearly identifies disclosures that are required and those that are simply suggested as an example. (submission 181)
 - "The framework document notes that "The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription". FutureValue has considered and reviewed this consultation framework carefully and at length. We have to conclude that in its current shape the IR Framework does not offer either enough flexibility or enough prescription....There are questions about the application of key strategic concepts in IR that need clarification to permit greater flexibility and that are perhaps also at the same time part of the need for better prescription. Principles-based reporting only works really well if there is clear unequivocal understanding of the cornerstones underlying the principles. It is the abiding failure of UK principles-based reporting, in FutureValue's experience." (submission 329)
- B3 Some suggested that, to the extent that greater prescription is required, it need not necessarily come from the IIRC. Instead the IIRC could cross refer to other reporting mechanisms that offer the prescription to aid <IR>. For example:
- "...Companies working to improve reporting can look to additional guidance provided by the Integrated Reporting Database and publications which recognise and support the initiative (e.g. 'Climate Change: Your journey to Integrated Reporting', Promethium Carbon and CDSB)." (submission 107)
 - "Right now the framework is not clear enough, could use more definitions, guidance, context, examples and practical applications. We recommend looking at the ICMM Assurance framework which is also principles based, looks at identifying prioritizing and reporting on materiality. They also have a guidance document. IIRC could engage with assurance providers to help provide more guidance on how this could be done." (submission 271)
- B4 There were also examples of respondents warning against greater prescription, including:
- "The IIRC should not aim to provide a normative and complex reporting framework but rather encourage companies to progress and learn from their experience feedbacks. The framework should remain a flexible and non-binding instrument companies can use and adapt to their particular situation and characteristics (business sector, size, maturity, etc.). It should keep on presenting general principles and not specific mechanisms." (submission 043)
 - The Draft Framework "should not be any more prescriptive; it already recognises all nationally legislated reporting requirements and its main impetus is to describe a process by which companies can arrive at an integrated and meaningful form of reporting." (submission 107)

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C – EXAMPLES AND METRICS

C1 Many respondents believe practical examples are necessary in order to make the concepts clearer, for example:

- “The Framework is appropriate for use in some extent. It needs to be enriched with more practical examples on how to implement the process and displaying the place of integrated reporting within the organization’s development. The Framework does not discuss in sufficient detail the connections between financial and non-financial reporting and their use for IR purposes, and merging it into integrated report and process in regards to the IIRC methodology.” (submission 281)

C2 Others call for specific metrics, KPIs and detailed standards

- “The lack of specific metrics leaves the same room for ambiguity which today makes reporting more challenging to decipher. ” (submission 270)
- “The core issue in IR that aims to address the issue of reporting on externalities is the lack of appropriate metrics ... a lack of a methodology to quantify value. As long as important values remain unquantified, they will be regarded as irrelevant and essentially zero, even though this is obviously wrong.” (submission 042)
- Mirroring the sentiment of submission 107, a respondent said that metrics need not be prescribed by the IIRC, “The <IR> Framework is an excellent conceptual template. I think it would be beneficial to make direct references to other frameworks that set forth specific indicators and demonstrate how those indicators can be used to help report in accordance to the <IR> Framework. Without this connection, I believe uptake will continue to be slow and incremental and limited primarily to companies with sophisticated sustainability programs already in place. ” (submission 123)

D – <IR>’S PLACE IN THE EXISTING REPORTING LANDSCAPE

D1 A number of comments referred to the need for greater coordination with other reporting frameworks and requirements including GRI, IFRS and national regulation, for example:

- Many of the concepts, principles and content proposed by the Framework are built into the existing disclosure infrastructure in Canada. Therefore, in addition to the questions posed by the IIRC, our subcommittee of six members, which included CIRI’s Chief Executive Officer, asked a critical question: Would the IIRC <IR> Framework deliver better disclosure than the regulations and guidelines followed by many Canadian companies today? (submission 248)
- The challenge is creating a framework that can be consistently applied without duplicating other disclosures “The framework is a good tool to re-think the way to communicate on how the company creates value. However, it can be interpreted in many different ways so that the final output and the success of the framework is hard to predict. Also its place in the overall reporting framework of the company is not obvious.” (submission 105)
- “The IR Framework provides a sound statement of what is required but will only be effective if:
 - 1) It is coupled with regulatory support;
 - 2) Used in conjunction with other related international guidelines such as those for financial reporting (IFRS) and sustainability reporting (GRI)” (submission 145)
- “We believe that this is certainly a step in the right direction. One next step could be more proactive work may be needed to try to draw together the evolving U.S.-based approach with that of the IIRC before things go too much further. The further into the future this is attempted, the more difficult it is likely to become. There are no guarantees that these basically different ways of looking at the same coin can be reconciled but it is certainly worth a real effort. Perhaps a push from U.S. based companies running pilots for the IIRC could lead the way in trying to bridge emerging gaps.” (submission 309)

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ADDRESSING COMPLEXITY

- D2 Some respondents comment that greater simplification of the Framework will be necessary for all or some reporters (e.g.: SMEs) in order to facilitate evolution of <IR>, for example:
- “We consider the guidance document very complex and vast and highly aspirational. We agree that the financial reporting to investors should and can be enhanced and applaud the IIRC for starting the debate. However in the current format, integrated reporting will not be applicable directly by most organisations at this point in time. This is a shame and could be addressed by simplifying the requirements somewhat.” (submission 022)
 - “We believe that listed companies differ from non-listed companies regarding complexity. Therefore we are in favor of creating a “light” version of the Framework for non-listed companies, in which the complexity is reduced.”
 - “Although it is stated (1.9) that the Framework is intended primarily for application by private sector, for profit companies of any size its content will definitely require certain adjustments if it is to be used by SMEs (small and medium-sized enterprises). Especially for those eligible for support under business-support programmes. For example, research funding, competitiveness and innovation funding.” (submission 016)
 - “We believe the framework would benefit from further simplification in its use of notions and models.” (submission 098)

PURPOSE OF <IR>

- D3 Some commentators predict the evolution of <IR> being linked to the wider context of risk in which companies operate and how they will respond to those risks, for example:
- “<IR> is a very useful, credible tool for providing information in the short, medium and long-term, and will become even more useful as it evolves toward the fundamental goal of companies and all human activities operating within the limits of the Earth’s planetary boundaries and mimicking the successful evolution of all other life forms over the past 3.8 billion years within “Life’s Principles”.” (submission 025)
 - “The report must mirror the concerns of society and for this reason will be hamstrung at first due to the lack of measures. The World Economic forum produced a list of Risks in 2012/3 which included energy, water scarcity and food security, yet we are yet to see the true impacts reported at organisation level. I can foresee reports giving testament to the ongoing performance of organisations despite the fact we are reaching a point in history where energy and food are constrained through water shortage leading to widespread economic constraint.” (submission 017)
 - “As stated in the opening paragraph, this is likely allow fundamentally unsustainable business models to continue unquestioned, potentially contributing to long term catastrophe [FROM KEY POINTS ...I believe that without some explicit requirement to include the full, end to end natural capital impact (along the lines of PUMA’s EP&L or TEEB’s 2013 report), the framework is not yet “fit for purpose”. Given that tools in this sector are still contentious and embryonic, the pragmatic approach to achieving this would be to anticipate the requirement in the document, with a deadline - while mobilizing whatever it takes to develop and agree the relevant tools.]” (submission 026)

ASSURANCE

- D4 A few respondents made the point that a related assurance model is necessary, for example:
- “Overall, we feel that the Framework is a valuable platform for continuing to pilot its use and for consideration by relevant standards setters and regulatory bodies. We recommend that the Pilot Programme continue whilst an assurance model is created. This will allow best practice reporting to be achieved and an assurance model created that is fit for purpose. Over time, it will be necessary to support the principles with

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guidance on preparation as well as sector- based guidance. However, until best practices are developed by industry leaders, any lack of guidance could result in boilerplate narrative.” (submission 234)

- “We believe IR assurance should not go down the route of traditional financial auditing which, by focusing on past performance (data), has often failed to identify the risks for the medium and longer-term sustainability of the company. We would welcome a new approach to assurance for IR which covers management assertions regarding its strategic responses to opportunities and risks over short, medium and longer term as well as the results of its actions (performance).”(submission 031)