

## ANALYSIS OF FRAMEWORK

### DEVELOPMENT OF <IR>

Question 23: If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

**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<sup>1</sup>, 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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### A – OVERVIEW

- A1 253 respondents (72% of total submissions) answered question 23 with concrete suggestions about whether, and if so what explanatory material the IIRC should consider developing. Three main themes emerged from an analysis of responses to this question as follows:
- Further guidance is mainly requested on the Guiding Principles of materiality and connectivity of information,
  - Clarification on all of the fundamental concepts set out in the Framework (the six capitals, value creation and business model) was requested; and
  - Guidelines on the implementation process were requested by many respondents, that is how <IR> should be implemented, including whether and to what extent International Financial Reporting Standards and the GRI G4 framework should be used to prepare information, whether a list of KPIs or other metrics could be prepared per industry and the role of internal control and assurance providers.
- A2 For many respondents, the IIRC should also develop a best practices database. As one respondent mentioned: *“Examples of best practice will further enhance the value of the framework.”* This is echoed by respondents 028 031, 032, 035, 046, 052, 055, 078, 104, 132, 144, 152, 159, 175, 184, 199, 215, 273, 290, 291, 299.

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

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- A3 Although most respondents favoured the production of more explanatory material, not all were in favour of providing more explanation at this stage. For example:
- Respondent 024 said that his organization was not sure whether further explanatory material is necessary as “we believe that this will become clear over time, and, at this early stage, the Pilot Organizations” will be best placed to respond to this question.”
  - Some respondents (e.g.: 070 and 107) pointed to the pilot program as being an excellent source of case studies in progress towards the end goal of how <IR> can be done.
  - Respondent 074 suggests not developing any more theoretical concepts, but focussing on the outcomes of the pilot program. Respondent 258 suggests that the IIRC should publish “a compilation of the difficulties encountered and the solutions found by organizations participating in the IIRC Pilot Program.”
  - Respondent 150 says that no additional explanatory frameworks are needed because “the more frameworks you have the more boiler plate it will become and the less useful to users.”
  - Respondent 179 recommends that the IIRC “publicly states its intention to, within a few years, evaluate the progress of integrated reporting and to determine and discuss what additional guidance is required.”
  - Respondent 198 says that “it feels too early in the process to identify specific topics where explanatory material is needed”, but does support the provision of practical examples in the meantime.
  - Respondent 295 says “rather than provide more explanatory material, the IIRC could retain its current light-touch, low prescription approach and instead focus on the dissemination of best practice, highlighting the benefits of <IR> to companies and investors and a move towards getting <IR> permissible as a replacement for some existing statutory reporting.”
  - Respondent 301 “does not consider it to be the role of the IIRC to develop extensive guidance on <IR>. The IIRC can give priority to providing examples and best practices of implementing <IR> and structuring the integrated report.”
  - Respondent 334 asks “is it really the objective for the IIRC to develop explanatory material? It would appear that <IR> possibility isn’t achieving the objective for which it was set up in the first place, and if it fails to generate real value for reporters and reporting users alike, maybe it won’t get much further.”
  - Respondent 339 “the risk associated with the provision of further explanatory material (including references/indicators/measurement methods) is that they create new or quasi reporting requirement or standards rather than simply the provision of information or guidance.”
  - Respondent 342 “we think that it is too early to identify specific topics where explanatory material is needed. We are concerned that guidance could lead down the road to ever-greater detail. We believe that it is important to keep an approach based on principles rather than detailed requirements.”
- A4 Some comments (e.g.: 012, 025, 033, 042, 180) related more to the rationale, objectives, wider context and business case for <IR> rather than to the particular explanatory material that could be developed by the IIRC. For example, respondent 183 asks for more guidance on what IR is trying to achieve and how it surpasses what we already have; respondent 187 asks for guidance on why <IR> matters; submissions 193 and 324 asks for the exact purpose and context for <IR> to be explained; submission 228 asks “why is IR different from other frameworks”; submission 217 asks for the business case for doing <IR> with proof that investors are asking for it; similarly submission 252 says “we are not yet completely convinced of the business case for integrated reporting and are not therefore driving demand for integrated reports. Integrated reporting has gathered considerable momentum over the past two years but it is important to maintain this momentum by continuing to demonstrate the soundness of the business case.”

## B –FURTHER GUIDANCE ON THE <IR> GUIDING PRINCIPLES

B1 This first theme focuses on the requests that respondents made with respect to the IR guiding principles. A majority of respondents asked for additional information on principles set out in the Framework (31% of the respondents on Materiality and 18% on connectivity of information)

### *Materiality*

B2 A significant number of respondents<sup>2</sup> identified *Materiality* as one of the central issues of the Framework and request additional explanation on this principle. Some respondents expressed this in robust terms. Submission 186 emphasises this by answering the consultation question “materiality, materiality and materiality!” Similarly submission 197 says that “without a robust process for materiality determination, the content [of an integrated report] may prove irrelevant, incoherent or incorrect.” One respondent (287) identified materiality as “always a headache.” One submission (326) says that “materiality is a concept that is beyond the role of the IIRC to define.....the IIRC’s role is to provide guidelines for consideration without providing a new definition of materiality.”

- As one submission (016) pointed out, businesses need explanatory material because materiality “is a term that is often misinterpreted and its definition tends to change depending on the context.” Similarly submission 275 says that there are too many competing definitions of what is material. Another respondent (099) says that materiality is focused on future predictions and not focussed on Risk Management. He goes on to say that “it is more important to manage business uncertainties and business resilience”.
- One submission (027) asked for guidance on the link between materiality and conciseness. Similarly respondent 036 asked for guidance on conciseness versus business complexity.
- One submission (151) asked for guidance on materiality determination from an investors’ point of view. Similarly submission 320 “can’t emphasize too often that materiality is a judgement of the investor, or if it is a judgement of the company, that company should be thinking about the investors’ points of view, not their own, in making those judgements.”
- For another respondent, “the concept of materiality takes into account any financial or non-financial event that affects the organization’s ability to create value or to sustain the business model over time. For a more accurate determination [it] would be interesting to develop standardized models for similar activities evaluation.” (submission 113)

B3 Several stakeholders expressed the need to supplement the existing background paper on Materiality with the following topics:

- The various dimensions that need to be incorporated (e.g. economic, environmental, social and governance; varying scope depending on operational control or severity of impact; etc.)
- Some more examples/guidance on how to determine the significance of information.

### *Connectivity of information*

B4 Several commenters’s expressed interest on further guidance on both how organizations connect their strategy, performance and prospects with the use of capitals, and how <IR> links with existing reporting mechanisms with an aim to reduce the reporting burden on preparers and make reports more useful to the user. One respondent (056) identified connectivity of information as the most important area to clarify because “it is the hardest principle to apply.”

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<sup>2</sup> (014, 027, 028, 030, 038, 046, 054, 075, 083, 092, 100, 101, 108, 113, 119, 124, 128, 130, 131, 144, 168, 169, 171, 173, 174, 186, 187, 188, 189, 211, 218, 234, 241, 268, 271, 272, 273, 274, 275, 292, 296, 308, 315, 321, 322, 323, 327, 338, 341, 344, 348)

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- B5 Examples of comments include:
- “The level of connectivity to the strategy story that balances market need with organizational risks such as litigation, reputation and competition”(019)
  - Explanation is needed around the connectivity between the time horizons of past to present and present to future. (213)
  - “There are an infinite number of interdependencies within an organization. It is a complex process to identify and communicate all of them. Expectations need to take into account the limitations of this approach in terms of covering all interdependencies relevant to all stakeholders, the complexity this results in terms of comparability and the risk of the focus on interdependencies reducing focus on value creation.” (246)
- B6 Others asked for more guidance in this area given the need to weave in all the relevant capitals in the value creation story whereby only the most material of the aspects need to be addressed (submission 173).

## C – CLARIFICATION ON FUNDAMENTAL CONCEPTS

- C1 37% of respondents are expecting further guidance on the fundamental concepts set out in the Framework. The six capitals (20% of the respondents) and the business model linked to the value creation (16% of the respondents) are the two main topics that they would like to be detailed in explanatory notes.
- C2 Some of the respondents drew attention to the importance of practical guidance to measure the inputs and outcomes of the capitals including for the intangible assets.

### *The six capitals*

- C3 The concept of different capitals is essential for <IR> as mentioned by many respondents (e.g. 017, 036, 071, 185, 189, 211, 216, 234, 247, 271, 272, 276, 279, 296, 303, 308, 310, 329, and 331). Some stakeholders suggested focussing guidance on the capitals that are the least understood, such as social and relationship capital (275) as well as natural capital including how they can impact the bottom line (278). One respondent (253) pointed out the need for more explanatory material on Intellectual Capital and Human Capital, as these areas have less authoritative sources of indicators or measurement methods developed by established reporting standard setters.
- C4 In order to describe the creation of value in terms of the capitals, many respondents felt that it is necessary to measure and quantify information about the non-financial capitals. For example, submission 031 asks for “methodology or examples of how to attach financial value to non-financial capitals.” Similarly submissions 168, 174 and 292 ask for guidance on how to put monetary value on intangibles. Submission 184 asks for guidance on how value changes in different capitals can be represented whether by quantitative indices or qualitatively. Submission 321 asks for “guidance on value techniques and how value creation or destruction can be computed for the various capitals.” Submissions 031, 036, 303 and 328 ask how to understand the “trade off” principle whereby types of capital are balanced against each other. Submissions 187 and 344 ask for guidance on “dealing with the negatives [as] this is uncomfortable territory event for the most advanced organizations.” One respondent (026) suggested developing a tool kit to quantify the eco-system services or natural capital benefits that a company’s business model uses and that are currently not recognised (the externalities).
- C5 Submission 218 asks for guidance on the “relevance of value creation with respect to capitals that are not owned and that don’t necessarily impact the company’s ability to create value at least not in the short-term, such as eco-system stability, climate, biodiversity and human rights.”

*Business model and value creation*

- C6 The business model covers inputs, strategies, resource allocation, business processes, outputs, outcomes, etc. Participants (e.g.: submission 016, 017, 030, 071, 101, 188, 189, 211, 238, 276, 303, 310, 329) noted that explanatory material would be helpful to understand and apply these different elements in reporting, appropriately. Points on which clarification was requested include:
- How to communicate the business model (101, 293), for instance, outcomes and how they relate to the organisation's reporting boundary, with specific guidance on the information to be sought from suppliers particularly outlying tier 3 suppliers; the disclosure requirements relating to the business model and particularly for diverse businesses/ conglomerates that operate across geographic regions or industry sectors.
  - Or on value reporting techniques and how value creation, preservation (021) or destruction can be computed for the various capitals (for example submission 058, 059).
  - Or on the link between stakeholders' relationships and value creation (008).

## D – GUIDELINES ON THE IMPLEMENTATION PROCESS AND METRICS

- D1 More than 40% of respondents requested explanatory material and practical tools and "process" guidance (e.g.: 033, 111) on how to implement <IR>, including the process and indicators (e.g.: KPIs) that should be used and how to collect accurate data for non-financial reporting (014).
- D2 15% of respondents called for explanatory materials on the role of assurance providers.
- D3 Many stakeholders want also to have additional information on the way in which <IR> relates to other reporting requirements and frameworks.
- D4 Support for experimentation within the Pilot Programme was mentioned by a few respondents who see this an important part of the implementation process.

*Implementation process*

- D5 Many respondents want the IIRC to provide recommendations for implementation that include, for example, *"methodologies, tools and templates for Communication and Marketing, Integrated Thinking, Implementation Approaches and Strategy, Implementation Maturity Model, Governance Structure, Project Plan, Risks and Controls Assessment, References, Resources, and Model Reports."* (Submission 114)
- D6 Implementation guidance could help businesses - for example, submission 047 suggests a step by step guide for companies similar to the GRI application levels; submission 133 asks for guidance on building robust internal reporting systems; submission 143 suggests guidance on the steps that an organization can take in the first year of integrated reporting and the further steps that can be taken in years two and three, progressing toward a more sophisticated integrated report over time; submission 274 stresses the importance of the process of integrated reporting. Similarly, submission 233 recommends that the IIRC could develop a "how to/transition document" that provides practical guidance on how to move from stand alone sustainability and financial disclosures to integrated reporting and submission 341 suggests providing a sample roadmap in implementing an integrated reporting framework in an organization. Some submissions (e.g. 312) suggest that a template or sample integrated report might help.

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*KPIs and other indicators*

- D7 While most respondents who addressed this issue agree that the Framework takes a principles-based approach rather than focusing on specific KPIs or rules for measurement or disclosure of individual matters, the IIRC may, however, publish subsidiary papers that suggest methods for measurement and disclosure or reference methods developed by others (e.g.: 029, 127). Many respondents are also concerned about data gathering and its assurance (e.g.: 059) and the development of measurement techniques (e.g.: carbon) so that it may become possible even consider these indicators in financial results.
- D8 A list of at least the basic KPIs is seen as very useful by respondents (34%) both to help organisations. For example, submission 015 says “A list of at least the basic KPIs can be very useful both to help organization write their own integrated report and to provide a minimum extent of space and time comparability among the reports.” This is echoed by submissions 052, 061, 072, 100, 129, 270, 315, 318 asking for a set of indicators, some preferring them to be limited set or sector specific or standardized metrics and how they are to be calculated.

*Role of assurance and assurance providers*

- D9 Respondents expect guidance on what information and/or elements of the integrated report could be assured and by whom<sup>3</sup>. Respondent 171 says that a standard on how <IR> should be assured should be developed by an organisation which is independent of IIRC.
- D10 They also need guidance for assurance procedures and internal controls (228), to harmonise the current approaches from different disciplines (accounting, environmental, social) and to prevent whitewashing on assurance engagements that are not focused on material aspects.
- How to obtain assurance on the value chain?
  - How to obtain assurance in relation to prospective information?

*Linkage with other reporting standards*

- D11 Many respondents want to understand the link between <IR> and internationally recognized standards, such as the IFRS, the Global Compact, the GRI, ISOs, the OECD Guidelines, the CDP or the WDP (see for example submission 008, 027, 032, 035, 037, 051, 052, 078, 084, 104, 118, 123, 132, 145, 149, 160, 168, 171, 175, 180, 184, 188, 191, 193, 209, 243, 247, 249, 281, 290, 291, 299, 315). Submission 193 notes that “some of the content elements of the Draft IR Framework are the same as or similar to those requirement in management commentary” and asks “what more or different does <IR> require?” Submissions 249 and 280 and 311 also note that the Framework refers to existing concepts from other reporting standards. Submission 233 recommends that the IIRC develops “a FAQ/one pager that clearly addresses some of the existing confusion in the marketplace between sustainability and financial reporting including the ways in which the various disclosure frameworks fit together.”
- D12 One commenter (269) pointed out that US companies would benefit tremendously from specific guidance on how preparing financial statements could integrate with preparing ESG information. “For example, how does a 10-K filing fit into an integrated report? The IIRC has the opportunity to break down the divide between financial and non-financial reporting in American corporate culture.”
- D13 Submission 104 points out that the IIRC’s approach to reporting based on value creation is a significantly different underlying approach to the GRI’s impact-assessment framework. Hence further guidance is required as to how these different approaches can be used in a complementary way.” Submission 209 asks for more information “on how to create an integrated report on the basis of an organization’s financial and sustainability report with accordance to GRI.”

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<sup>3</sup> (For example, submissions 014, 027, 028, 029, 044, 068, 092, 108, 128, 133, 144, 145, 148, 153, 159, 173, 182, 183, 191, 205, 272, 282, 308, 310, 346)

## E – OTHER COMMENTS

There were a variety of other comments in response to this question, including:

- E1 **Education and capacity building** – circulate widespread education about the different types of capital since these are not yet part of the common vernacular and promote the desirability of shifting to <IR> over the old fashioned financial only accounting system (012).
- E2 **Consistency and comparability** – how to achieve this (016).
- E3 **Roadmap** - a journey or roadmap toward better external disclosures. One respondent (019) who raised this point said “we do not agree that a single integrated report is the end in mind for market participants.” Similarly respondent 035 asked for a “roadmap of the IIRC after completion of the Framework.” Respondent 103 suggests that agreement should be reached with the main standard setters and regulators for the further development of <IR>. Similarly respondent 137 suggests cooperating with standard setters to develop whole sets of accounting standards fitting the concept of integrated reporting.
- E4 **Integrated thinking** and integrated intelligence (021, 037, 126, 135, 197, 213, and 276)
- E5 **The reporting boundary** and how the <IR> boundary relates to a financial report and OFR (029, 130, 149, 185, 213, 216, 287, 311, 343). See also the analysis for question 21 where similar points are made.
- E6 **Expected involvement of the Board in the process of <IR>** (132, 175, 241, 276, 290, 291, 299). See also analysis of questions 17 and 18 where similar points are made.
- E7 Inclusion of **contextual information** from the external environment (039)
- E8 **Simplicity** - “The wording and format of the framework should be more friendly” (051). Similarly submission 211 asks for the material to be less technical and more practical.”
- E9 **Stakeholder engagement** (054, 169, 197, 204, 241, 254, 270, 277, 326, 338)
- E10 **Future orientation/outlook** (054, 098, 114, 148, 155, 236, 253, 254, 296, 344), including the link between future looking information and verifiability (286) and the link between strategic focus and future orientation (287)
- E11 **Resource allocation** (039, 057, 328)
- E12 **Definitions and terminology**; for example, submission 152 says “we strongly recommend use of the term <IRP> for integrated reporting process which better denotes the full scope of integrated reporting’s meaning as a process and discipline, avoids overlap with the established term investor relations (IR) and prevents confusion with the integrated report per se. Submission 172 calls for a more detailed definition of “outcomes” in connection with the reporting boundary. Similarly submission 196 asks for clarification on the differences between output and outcome particularly given the confusion caused by Japanese translation of these terms. Submission 311 asks how to achieve a balance in internal vs. external outcomes and how the selection of the outcomes for inclusion in an integrated report connects with the capitals and reporting boundary of an organization. Submission 327 also mentions outcomes as a priority subject for guidance.
- E13 **Conceptual Foundation** – A robust conceptual foundation....is necessary to develop more precise concepts and definitions in addition to the Guiding Principles and Content Elements enumerated in the present draft Framework” (068)

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- E14 **Omissions** - Explanatory material should be developed to provide examples on how a company should disclose the reasons for not including some information in the Report (081). Similarly, respondent 205 asks for guidance on items which could be excluded due to commercial sensitivity and respondent 234 asks for guidance on the application of the "exemption".
- E15 **User needs/audience** - Clarification on how an integrated report would give useful information to the providers of other capitals (e.g.: employees) or how communications to those would relate to integrated reporting (084). Similarly submission 094 urges the development of material explaining how providers of financial capital may or may not form a "proxy" for other stakeholders and how the decisions of this group support the purported gains of market transparency and lower cost of capital." Submission 104 asks for clarification on what constitutes a legitimate or non-legitimate need and interest for information. Submission 131 says that "the primary audience being financial capital providers limits a firm's accountability, limits a firm's vantage point on what creates or destroys value and does not render anything beyond what we presently have in public financial reports." Submission 152 supports the stated audience and recommends stressing that an integrated report should be prepared primarily for providers of financial capital in order to encourage concise reports. Submission 155 also supports the stated audience as being primarily providers of financial capital but notes that these are not a homogenous group and that their information needs may be very different from those of other stakeholders at the moment, although over time, their perceptions of value may converge. Respondent 255 asks how providers of financial capital will respond to the receipt of integrated reports..."will they annually produce transparency public reports back to individual companies and groups of companies by sector to provide feedback on the value of <IR>?"
- E16 A number of respondents mentioned **credibility and reliability** in different contexts. The points reflect those made in response to questions 19 and 20 and are therefore dealt with in that analysis.
- E17 Preparation and presentation (124, 147)
- E18 A number of respondents referred to **technology** such as XBRL and Big Data in various contexts (e.g., 147, 250, 280, and 325). The points raised are picked up in other analyses.
- E19 **Sustainability context** (169, 338)
- E20 Development of <IR> for the **public sector** (180, 182)
- E21 **Time horizons** – Submission 204 notes that the IIRC "has a unique opportunity to take a lead on directing a refocus on long term investing...by recognizing that sometimes long term long term value drivers mean recognising, embracing and preparing for disruptive technologies or changed stakeholder expectations." Submission 209 also asked for more clarification on short, medium and long timeframes. Others, including 273 ask for more guidance on time frames.