ANALYSIS OF FRAMEWORK

OTHER

Question 24: Please provide any other comments not already addressed by your responses to Questions 1 – 23

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 100 comments (from a total population of 355 responses) were received and taken into account for the purposes of this analysis. Some comments had been moved from the key points section of respondents' answers. Comments that duplicate clear themes arising from analyses of other questions (such as the demand for best practice examples) are not taken into account here.

A2 Most of the comments made in response to question 24 were about the IIRC as an organization, how capacity for <IR> will be built, what are the costs and benefits and legal implications of <IR> and the evidence of user demand for <IR>. Fewer comments dealt with the detail of the Framework itself. For ease of reference, Part A of this analysis focuses on comments that relate to the Framework and Part B summarizes comments made about <IR> more generally. Part C lists sundry, isolated comments.

B – COMMENTS ON THE FRAMEWORK

B1 Comments on the Framework fell into five main categories:

- The International <IR> Framework – Structure layout and language
- Integrated thinking
- Those charged with governance
- Materiality
- Assurance

Points made by respondents are elaborated below.

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

THE INTERNATIONAL <IR> FRAMEWORK – STRUCTURE, LAYOUT AND LANGUAGE

B2 Several suggestions were made about the structure and layout of the framework, including:

- List all the principles-based requirements and required content elements (identified throughout the Framework in bold italic type) together on page (133). Similarly respondent 193 suggests providing a one-page overview of the Framework.
- Similar to the FASB ASC site, references to different sections should hyperlink to that section. For example, the capitals are first mentioned in 1.5. This could link to 2B or 2.12-25 where the capitals are described in detail. Also similar to the FASB ASC, it might be useful to provide users with the ability to click on key terms and have definitions for that term pop up in a small box, so that the user does not have to find where the term is originally defined (147).
- Similar to how Figure 3 does a great job of illustrating the value creation process, there should be a graphic that helps conceptualize and tie together Sections 2-5 of the Framework: the Fundamental Concepts, the Guiding Principles, the Content Elements, and Preparation and Presentation. Since the Framework is a new way of reporting, the presentation of the entire framework should be visualized so that a layperson could understand it. It should be that simple. Otherwise, people will get confused easily, which would hurt the Framework's dissemination to the public. Even as someone who studied Accounting in college and now works as an Auditor at PwC, I am still having trouble wrapping my head around the entire Framework, to the extent that I understand how each of its constituent elements fit with each other (147).
- The drafting convention applied in the Framework needs to be consistent in the manner in which the "bold type requirements" are presented. The bold type text should be clearly phrased as matters that should be included in an integrated report that claims to have been prepared in accordance with this Framework. There needs to be clearer identification between a principle-based requirement and explanatory guidance. Further, there needs to be consistent application of the words "should", "must" and "shall" (189).
- The navigation devices might be improved by changing the consecutive numbering of the paragraphs to include the section indication. For example, change paragraph 4.6 into 4.A.1, which clearly delineates that this paragraph belongs to section A (219).
- We found there is a lack of cohesiveness between the chapters of the Framework. For example, the significance of the various capitals as fundamental concepts does not seem to be reflected in the content elements that contain relatively little information describing how these capitals should be reported; the requirements to discuss management processes do not seem to be consistent with a concise reporting and the CD views the decision making process as a collaborative effort of senior management and those charged with governance, which is inconsistent with the Canadian perspective on governance as an oversight function, not management. (244).
- Considering that conciseness is a guiding principle, there is a lot of duplication throughout the IR Framework. The draft also begins to 'tire' a bit by the end - eliminating repeated information could help the reader make it through the draft with 100% alertness and interest (268).
- Definitions, definitions, definitions! The terms "issue", "matter", "components" are (a) not defined and (b) used interchangeably. For example "matters" used in paragraph 5.3 and "components" used in paragraph 3.7. The framework should use consistent and defined (and preferably simple) terms (316).
- One respondent commenting on behalf of a number of companies suggested that paragraph 4.5 should be right at the start of the Framework.
- The language of the framework should be reviewed to make it simpler and easier to understand, shorter sentences etc. and also in terms of reducing repetitions (141).
- The framework and explanatory notes should be reviewed with a view to removing/replacing language which is unlikely to be universally understood by an international audience and may present problems for ease of translation to other languages. We would recommend, for example, the removal/replacement of such terms as "boilerplate", "tone at the top" and "silo thinking" (224).
- Several specific suggestions were made by respondent 158, as follows:
  - it would be beneficial if the Framework exemplified the clarity, consistency and conciseness that it calls for in an integrated report. With that in mind, it would encourage the IIRC to review:
  - if and to the extent they are retained, the degree of overlap and duplication in the core content requirements in paragraphs 4.6, 4.10, 4.13, 4.18, 4.21, 4.27 and 4.33 of the draft Framework – for example:

  - the questions "what does the organization do?" (paragraph 4.6) and "what is the organization's business model?" (paragraph 4.21) could easily be combined into one question; and
  - the question about the opportunities and risks that affect an organization's ability to create value over the short, medium and long term (paragraph 4.13), at least in theory should elicit any required disclosures about the resilience of its business model (paragraph 4.21) and the challenges and uncertainties the organization is likely to encounter in pursuing its strategy (paragraph 4.33), making those aspects of the questions in the latter two paragraphs redundant;
  - the drafting style used in the Framework, which in places lapses into "management-speak" (two examples are the reference in paragraph 1.17 to "the capacity of the organization's governance structure to assess resilience against short term disruptions" and the reference in paragraph 4.29 to "monetization with respect to externalities"); and
  - the diagrams in figures 2, 3, 4 and 6 of the draft Framework, which are not particularly informative or helpful in understanding the Framework.
- We do not think that Figure 1 adds to understanding the text. It is very difficult to interpret the significance of Figure 3, particularly as regards the topics which encircle the "Business Model". Figure 4 is confusing in that the footnote disclaims the representation of a hierarchy which is the clear implication presented by the diagram (227).
- Overall, the diagrams could be bolder and have clearer labelling. Most of the diagrams need to be studied and referred back to the text.
  - Figure 1: This diagram is good as it neatly portrays the principles and content elements.
  - Figure 2: This diagram is not useful to the reader. We don't think that the "octopus" style is appealing.
  - Figure 3: This is better than Figure 2 as it includes a useful overview of the business model. (212)
- Something that has not been adequately covered in the above framework is the link between sustainability, strategy, risk and performance management. With regards to the latter, we believe that short-term motivation or incentivisation is a key issue and constraining factor to longer-term thinking. Not only should the above linkages be brought to attention, but perhaps best practice guiding principles should be provided as to how to align all the above in order to achieve an organisation that creates long-term value. (200)
- We suggest 2 additions for the glossary, namely "organisations" and "externalities".(200)
- In section 4 Content Elements, add the organization's risk management processes including accountability of TCWG to section 4.5 (114).
- A number of respondents commented on the need for the Framework to be translated into other languages and also on the difficulty of translating certain terms into other languages.
- We recommend defining the term "resilience" in the context of <IR>. (114)
- In the glossary, include a definition of "value", which is extensively used throughout the framework. (237)

INTEGRATED THINKING

B3 At least seven respondents (013, 019, 114, 200, 273, 329, 343) commented on the notion of integrated reporting with the majority supporting it and suggesting that it should be clarified or given greater prominence. For example;

- "The more that integrated thinking underlies the organization's unique value creation story by being embedded into its activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making and subsequently into the integrated report. Accordingly, introducing ways to improve integrated thinking within the organization can help drive the <IR> process (013).
- "Well run organizations have long understood that integrated thinking makes for better business and better outcomes (019).
- More guidance should be provided illustrating how to support integrated thinking in decision-making (114).
- Give greater emphasis to integrated thinking as opposed to a separate report (273).
- The spotlight on integrated thinking as an implied benefit will also be interpreted by many as an attempt to introduce a new way to think about business and its organization, and to introduce that new thinking through the back door by the means of voluntary corporate reporting (329).
- As a general observation, we note the Framework has an emphasis on reporting (which will be a by-product of integrated thinking) and in our view it would be appropriate for the Framework to explicitly acknowledge that entities will need to devote time to integrated thinking before they can produce a report that fully embodies all aspects of an integrated report (343).

- The concept of integrated thinking and its importance started out very strong in the beginning of the framework, and then as the paper progressed it began to revert back to silo-thinking and placing unwarranted emphasis on financial capital and financial capital providers above the rest. It is crucial that integrated thinking, decision-making and actions are encouraged throughout (200).

THOSE CHARGED WITH GOVERNANCE

B4 Comments made are consistent with the themes that emerge from the analysis of questions 17 and 18, for example:

- Tension between requirements in the Framework and legal requirements – "In Australia the responsibility for ensuring the accuracy of corporate reporting is on the board and its directors. For example, the directors (rather than management) must approve the financial statements and the directors' report. As such, "those charged with governance" under the integrated reporting framework would be the board of directors in Australia. If integrated reporting is mandated in Australia, it is likely that directors would be required to approve the integrated report and thus the directors would be personally liable for any omissions or misstatements within the integrated report. This would increase the compliance burden on the directors to ensure that they are satisfied with the disclosures included within the integrated report. This additional work on the integrated report would be required over and above the work that directors currently undertake on their current extensive corporate reporting obligations (164). "
- Need for clarification on who are those charged with governance - We suggest to do no use of the term "Charged with Governance" to use the term "Senior Management" (208)
- The role of those charged with governance - "One very key and important area not mentioned is strength & tenure of management. Naturally, <IR> is already 'self-selecting', namely bad companies would not look at doing <IR>! In my humble opinion, my observation is that most senior CEO of mid-market corporations only last between 3-5years (unless they are majority shareholder/ founder/family owner), considerations need to be given to how long 'realistically' each firm is likely to maintain its growth/viability given the likely change of the leadership. Do not believe for one moment every industry CEO is like Paul Polman or Richard Branson, they are outliers and can run the firms effectively whilst they still have competitive advantage (Cash+Scale & Brand respectively) which like BP & others before, can also lose most advantage overnight if the business and/or its risks are not managed properly. Trust with the arrival of <IR> we can all have a blue print to provide checks & balances transparently. (232)"

MATERIALITY

B5 Comments made about materiality in response to question 24 are consistent with those made in response to other questions and include:

- Application of the materiality determination process – A contributor from Japan asks how the materiality determination process in the IFF would have applied to the Fukishima nuclear accident in Japan. <IR> Framework requires disclosing material information on issues and events that are low in likelihood of occurrence and high in magnitude of effect. To what extent should information have been disclosed before the nuclear accident? When it comes to business carried out as a national policy, for instance nuclear power generation in Japan, companies cannot disclose all the information based on their individual judgments. How should these companies have dealt with such situation? (106)
- Tension between materiality for <IR> and for regulatory purposes – "The integrated reporting framework also requires that only "material" information be included in the integrated report. In an Australian context it could be argued that by simply including information in an integrated report, the company is implying that the information is material for the purposes of the Australian continuous disclosure regime. While we are of the view that the definition of materiality in a continuous disclosure and integrated reporting context is different, there is a risk that the introduction of the integrated reporting framework in Australia could significantly extend the range of disclosures that the organisation would be required to continually monitor, to ensure that they are meeting the continuous disclosure requirements and making the necessary announcements to the market, should one of the disclosures within an integrated report change." (164)

ASSURANCE AND THE ROLE OF ASSURORS

B6 Comments on assurance were also consistent with responses to other questions. Comments include:
- Internal audit can provide advisory services during pre-implementation stages of IR to ensure that adequate controls are put in place. Add "Assurance" and "Reasonable Assurance" to the glossary (114).
- "We are opposed to the IIRC providing any guidance regarding the provision of forward-looking statements, technology to be used, and especially assurance of the non-financial information. The provision of such guidance should not be the role of the IIRC and, even though verification by an independent third party can be considered as an additional investment in a company's transparency, we are not in favour of mandatory verification outside the financial statements. It should be for the company itself to consider the pros and cons of third party verification. Also, third party verification does not necessarily have to be done by a certified auditor. In this respect, a requirement to provide a statement of compliance is undesirable (353)."

C – <IR> GENERALLY

C1 Comments on <IR> generally fall into four main categories
- The IIRC – Organization, objectives, structure, ongoing role, capacity building & membership
- The business case for <IR>, costs, burdens and benefits, market drivers, audience demand
- Relationship between <IR> and other reporting requirements/practices
- Scope and application of <IR>

IIRC – ORGANIZATION, OBJECTIVES, STRUCTURE, ON-GOING ROLE, CAPACITY BUILDING & MEMBERSHIP

Objectives of <IR>

C2 Some responses encouraged the IIRC to clarify its objectives, for example:
- We believe the IIRC needs to be clearer on the breadth of ambition it has for <IR>. At present it is still seen by many as the combination of corporate social responsibility reporting with financial reporting. <IR> has a role to play in helping organisations present information that enables investors to make a better assessment of how shareholder value is affected by corporate social responsibility factors - but this is as a part of its wider objective to extend reporting of such information other than for investors (122).
- Possibly, with the benefit of hindsight, giving undue attention to reporting inadvertently <IR> itself has gone off track of what it was set up to do in the first place. What investors and organizations should be interested in is not Integrated Reporting, but integrating sustainability issues into management processes and reporting on that, whoever the stakeholders are. The better an organization does this, the more sustainable will be its activities and the lower risk for investors (339).
- As a foreword to the framework, the IIRC may wish to reiterate the purpose of <IR>. (185)
- The IIRC could make much bolder and more ambitious statements about the fact that IR MUST show how organizations are creating value that supports sustainable development and financial stability objectives and that serves the public interest. In the long term, we suggest that there is also a role for the IIRC in requiring providers of financial capital to demonstrate that they are making decisions and allocating capital actively to support organizations that do so (193).
- It is not only about reporting and changing behaviour, as the Draft Framework states, but it is also about a new conception of company and capitalism, an innovative way of managing organizations, making better informed decisions, considering risks and opportunities. This could also be added into the body of the definitive Framework (279).
- "Any new approach should be implemented with the goal of improving the existing problem of "regulatory overload," by keeping information timely and relevant and avoid bombarding investors with irrelevant or obsolete information that investors may be unable to digest or evaluate." (260)

Membership/structure/breadth of IIRC

C3 Some respondents encouraged the IIRC to widen the scope of participation in its work as follows:
- Respondent 016 suggests opening Council membership to a more diversified demographic background.
- Respondent 028 thinks the IIRC is biased towards English speaking, western, developed economies and would like to see a more balanced regional composition of IIRC. The respondent goes on to say, "we also think there is a bias towards accountancy language/procedures. We firmly believe that, while the accountancy profession has developed rigorous processes and terminology for financial capital, the holistic approach required by Integrated Reporting and consideration of other types of capitals will require the interaction with other areas of knowledge that have been historically more concerned with these other forms of capital. We think that currently there is an imbalance on the recognition of other approaches and practices.
- Respondent 288 notes that, according to IIRC's website, there are only 2 NGO's representatives of 49 members on the Council.
- Respondent 341 recommends that the IIRC should offer a concessionary rate for the developing countries to join the IIRC Pilot Project

Ongoing process of IR

C4 A number of respondents ask questions about the ongoing role of the IIRC and the ongoing process of <IR>, for example:
- Respondent 006 asks "should the process of stakeholder meetings etc continue on an ongoing basis once the introduction of IR in complete".
- Respondent 053 asks whether the IIRC will periodically conduct quality control to determine whether reports are in accordance with the Framework.
- Respondent 053 also suggests the creation of an IR reporting award.
- We would welcome the IIRC outlining its plans for promoting uptake and embedding of the <IR> framework after its release (149).
- Respondent 216 suggests future activities for the IIRC following publication of the Framework including:
  - post implementation review to inform future maintenance of the Framework
  - on-going advocacy for adoption of <IR>
- Respondent 224 raises the importance of encouraging research on the effectiveness of IR longer term to include assessment of the usefulness of IR to key stakeholders and the extent to which this improves on information provided through other channels and forms of reporting.
- Respondent 245 says "regarding the credibility and acceptance of the framework, it is important that the IIRC has a well established governance structure and is accountable and transparent on its activities and funding. The AFM recommends the IIRC to work on these issues after completion of the integrated reporting framework."
- Respondent 263 says, "In order to provide the necessary credibility to the process that hopefully will last for many years, the IIRC would need to work on its governance (or make it more clear to external stakeholders). One example: to disclose how (criteria, processes) the members of all its governing bodies are appointed. This is relevant because the governing bodies will be responsible for the maintenance of the <IR> Framework, the relationship with all its stakeholders, its business model (financial viability), etc."

Capacity building

C5 Several respondents raise the issue of capacity building as being crucial for the successful adoption of <IR> including:
- Respondent 109 "In order to make Integrated Reporting a success NBA foresees a need for a change of attitude in the total business environment. Our observations confirm that organizations, investors and providers of financial capital still hold on the short-term focus. Current primary users may not yet drive organizations in the right direction towards long-term value creation in the context of the Framework. We expect IIRC must continue to perform activities for creating awareness."
- Respondent 147 expresses concern about lack of awareness in the USA.

- Respondent 151 requests training resources, which can be used internally to build organisations' capability for developing Integrated Thinking and <IR>.
- Respondent 327 says "While the developing world may receive benefits from <IR> implementation, the difficulty and cost of implementing and disseminating <IR> concepts should also be taken into consideration. Especially as currently most countries are still grasping to get hold onto major changes in global accounting standards (i.e. IFRS)."

THE BUSINESS CASE FOR <IR>, COSTS, BURDENS AND BENEFITS, MARKET DRIVERS, AUDIENCE DEMAND & NEED FOR REGULATORY SUPPORT

Market drivers

C6 Respondent 019 supports a market driven approach but notes that companies shareholders and other want the value of the disclosures to exceed the cost to produce and obtain assurance thereon. They question the market drivers, need and value articulated by investors and other market constituents for a single fully integrated report and ask whether existing approaches should be assessed by the IIRC.

Costs/burdens and benefits

C7 Comments include:

- Respondent 049 calls for the costs and benefits of IR need to be more clearly articulated as they will largely determine the successful adoption of IR. Ensuring that IR fits within existing reporting regimes would assist.
- Respondent 177 says, "For many entities the cost to produce this report is likely to be prohibitive, and particularly in a post-GFC era when costs are being closely monitored. However, many aspects of the <IR> Framework are being introduced in Australia through other legislation. For example, environmental issues are captured through environmental laws and regulations, greenhouse gas reporting and the cost of using water. Similar, occupational health and safety issues, minimum pay awards and various training incentives promote good governance in respect of employee working conditions. Although not optimal, it might be possible to develop an <IR> matrix that demonstrated to what extent the different categories of capital were regulated in the environment(s) in which a business operated.
- Respondent 181 says "Cost-benefit analysis is key to developing effective practice, however information on the cost of preparing an Integrated Report compared to the benefits it might bring to its intended audience has not been included in the CD. We believe that such an analysis, focussing on the benefit to investors in line with the Framework's expressed objectives, should be undertaken and published."
- Respondent 330 – "The consultation document does not contain a cost benefit analysis of the proposals, nor does it provide evidence of a demand amongst investors. A cost benefit analysis should be provided and should seek to demonstrate the benefit to companies and their shareholders. Such an analysis should include an assessment of the cost benefit for small and mid-size quoted companies as well as for their larger listed counterparts."
- Respondent 339 calls for an articulation of benefits – "Given there are a large number of benefits to operating in an integrated reporting manner we believe the relevant benefits need to be articulated more clearly and specific examples given including (1) the benefits of creating and sustaining long term capital, (2) the favourable views of the capital investors (3) potentially comparable information for global companies (which may allow for benchmarking etc)."
- Respondent 164 says, "integrated reporting is likely to increase the reporting burden on organisations, as the integrated report would be in addition to the current corporate reporting of the organisation; increased costs, including an investment in technology is likely to result from having to collect the data required for inclusion within an integrated report; the Consultation Draft did not put forward any compelling evidence as to the significant benefits which would accrue to an organisation preparing an integrated report; currently about 69% of Australian shareholders do not receive the annual report at all and directors are therefore concerned that the integrated report would be produced by a company at great cost but would not be used by a significant number of shareholders.

- Respondent 329's "biggest concern is that the complexity of the IR framework, and the cost its adoption will incur, without evidence of sufficient benefits accruing from it, will stall its take-up in many jurisdictions. Guidance sensitive to each region will be essential."

Audience/audience demand

C8 Comments include:
- "Make sure that the framework is fully vetted by investors and gets acceptance at global level to allow for IR to replace other required reporting. These mandates must be principles-based and guided by market forces." (057)
- "The type of investors, who would utilise the disclosures within an integrated report remains unclear." (164)
- The ultimate purpose of any form of corporate disclosure is to provide material information to the market and stakeholders. There is no point in devising an elaborate structure of disclosure if no one is listening. Consequently, we need to be certain that there is genuine investor demand for what is disclosed - that it adds value to their investment process and is not just "nice to know". (166)
- "The <IR> Framework clearly states that the providers of capital are the primary intended report users. However, ICMM's interaction with investors at a range of levels has yet to demonstrate a strong appetite or demand from within the sector for <IR>. At present, <IR> is seen by many within (and beyond) the investment community as combining financial reporting with light-touch sustainability reporting, which is clearly not the ambition of the <IR> Framework. We recognise the potential benefit of integrated thinking and reporting to investors, but if reporting organisations are to make the investment in time and effort to shift to <IR>, the IIRC needs to demonstrate broad support from within the investment community for <IR> as articulated within the <IR> Framework." (303)
- If Integrated Reporting is an evolution of reporting best practice, where is the pressure for this coming from? Is there shareholder pressure related to this? What is the relevance for investors? Is there the risk of alienating investors through too much complexity? (306)

Regulatory support

C9 A number of respondents commented on whether <IR> would need regulatory support in order to maximise adoption and minimise reporting burdens, for example:
- "Adding more reporting without amending any existing legislative based reporting requirements would decrease the efficient use of taxpayer resources and lead to a confusing variety of overlapping and potentially contradictory public reports." (049)
- "The appropriate legislation, regulatory action or stock exchange listing requirements need to be put in place to mandate <IR>. (068)
- "Unless reporting is made mandatory progress is likely to be slow. LAPFF would recommend that pressure is brought to bear on regulators to engage further with the framework with a view to mandating this form of reporting." (107)
- "Some countries and industries already have extensive mandatory reporting and auditing requirements. A key objective of <IR> is to improve the efficiency and conciseness of reporting. It would be difficult to achieve this objective if organizations have to continue to issue reports in existing form plus the new integrated report. It is imperative that the IIRC work with key regulators and advocate for the simplification of reporting around the world to eliminate redundancy as much as possible. This would also promote consistency and comparability of information presented." (114)
- Respondent 168 says that the IIRC should get more government and regulator input.
- Respondent 164 takes a contrary view, saying "We are of the view that mandating integrated reporting, with the current regulatory environment, would result in integrated reports becoming compliance driven and filled with "boilerplate" disclosures in order to limit the potential for litigation against the organisation and/or its directors. The Australian Institute of Company Directors in its paper, The non-executive director's view of integrated reporting stated that an integrated reporting framework should be "a principles based, non-regulatory "if not, why not" styled framework that recognises the diversity of business, encourages innovation and promotes entrepreneurial activity." We are concerned that the… constraints of the Australian regulatory

regime would significantly impact the ability of Australian organisations to prepare an integrated report, in accordance with the framework contemplated by the Consultation Draft."

- "It is our firm view that in order for IR to be fully effective it should be introduced as a mandatory requirement (possibly by statute) that it be produced by the management of organisations on an annual basis as an internal document to support the annual financial statements, with the auditors report in the financial statements confirming that such a document has been prepared in accordance with the format required by the IR Guidance (but without any assurances as to the contents). Organisations should be free to choose any wider publication to other stakeholders or to retain the document as a confidential internal management tool." (227)
- "Unless adoption of <IR> is government mandated, or if by reporting <IR> more investors will buy shares (or more B2B/B2C customers will do business with them), it is not likely to convince firms to adopt some might argue an onerous task (the new <IR> report seems on surface might be a lot more comprehensive than even main board listing document!) It is therefore paramount that the <IR> becomes the industry standard, if at least by the signatories' domicile countries, as only then would the impact of <IR> be felt.)" (232)

RELATIONSHIP BETWEEN <IR> AND OTHER REPORTING REQUIREMENTS/PRACTICES

C10 This theme emerges from responses to a number of questions. Response 118 is reproduced here as it makes specific suggestions on how alignment might be achieved.

"Key is alignment or linkage between the requirements of IIRC's IR and GRI's G4. Reporters and users including regulators are getting more confused. Alignment has to be done to advance the efficiency and effectiveness in reporting practices that the recent Memorandum of Understanding between the IIRC and GRI refers to as common purpose. First steps in this direction could be:

1. Aligning the reporting principles of the two Frameworks, setting out and explaining how they differ yet complement;
2. Grouping GRI indicators, notably empirical ones, in terms of the six capitals of he IR, making it easier for users to consider where sustainability reporting data should feed into IR development;
3. Having mapped GRI indicators against the six capitals, consider what gaps remain and how related, commonly used indicators on e.g. manufactured and financial capital - found in annual financial statements – may fill these; and
4. Explaining difference and complimentarily between the respective materiality and content determination processes, helping reporters to erase areas of duplication and ensure that IR content is really the shorter, concise content for a specific user group that is complemented by additional content for a broader stakeholder audience."

C11 Respondent 246 makes the following suggestion – "Rather than aim for another separate report, we believe that the IIRC process should aim to improve, and help integrate, existing public reporting frameworks which already cover the same ground as the six capitals. While it is not easy to persuade others to change existing reporting frameworks, IIRC could avoid increasing the reporting burden by focusing on shortfalls identified by its stakeholders, including those representing providers of capital."

SCOPE AND APPLICATION OF <IR> - APPLICATION BY THE PUBLIC SECTOR, SMES AND NON LISTED COMPANIES

C12 A number of respondents mention the need for <IR> to be adapted to apply to the public sector (for example 049 and 224). Respondent 184 says "Although we agree with the principles contained within the IIR framework, it would need to be reviewed considering what is fundamentally different about the public sector. The contextual factors are different, for example, the political dimension, accountability imperative and multiple users of financial statements and reports. The primary stakeholder group for financial reports would be the legislature and the taxpayers. Are they the providers of capital for the public sector? Perhaps, but they will not be the only ones."

C13 Similarly, some respondents (for example 119) ask how <IR> will apply to SMEs and to non-listed companies given that their reporting is for an audience other than providers of financial capital (161)

C14 Some respondents make suggestions about scope and application of <IR> as follows:

- Respondent 118 "believes that the concept of proportionality could usefully be introduced into the draft Framework. This could be done by setting a size threshold before <IR> becomes applicable or by simply recognising in the Framework that the amount and type of information that smaller organizations are expected to provide under <IR> is likely to be different to that provided by larger organizations with greater resources and with a likely greater impact on economic, environmental and social sustainability globally." (118)
- Respondent 177 – points to new governance standards and reporting requirements introduced by The Australian Charities and Not-for-profit Commission (ACNC) and says "Although these requirements have not been labelled as an integrated report, many aspects of the <IR> Framework are effectively included. In particular, there is a focus on the purpose and objectives of such organisations, and disclosure relating to non-financial performance goals. Consequently, the <IR> Framework could be tailored to address the reporting needs of different types of entities, simply by the identification of different principles/objectives relevant to the different categories of capital."
- Respondent 234 says " Whilst the concepts of reporting on how an organisation creates and sustains value are appropriate to all entities, we would caution against its application to SMEs until further guidance is developed for these entities. SMEs, which are often privately-owned and frequently owner-managed, represent key sources of job creation and innovation. Such enterprises are likely to be ill-equipped to implement a fundamental change in reporting without incurring significant relative costs associated with training and systems implementation. The costs, in both monetary terms and the demands on management time, risk reducing SMEs' competitiveness. However, in the event that SMes have external investors or lenders that require <IR>, we recommend that the needs of SMEs that elect to adopt <IR> are taken into consideration (e.g. the Framework should be scalable and specific guidance should be provided for them). Unlike existing reporting frameworks when the size of the entity often drives the complexity of reporting, the way in which <IR> is implemented is dependent on the industry and operations of the entity. This may eventually result in many smaller companies adopting an <IR> model as this will provide more meaningful information about the company and how it creates value. For example, companies operating in the brewing or clothing industries may choose to produce an integrated report due to the fact that brewing companies have very high energy and water impacts at the point of production and clothing companies tend to have complex supply chains with a high degree of commercial sensitivity."

D – SUNDRY COMMENTS

D1 Sundry and one off comments are included here for completeness:

- <u>Link <IR> and ERM -</u> Link Integrated Reporting to an organization's enterprise risk management system and The Three-Lines of Defense model, and provide examples of how they work together to strengthen governance. (114)
- <u>Continuous reporting vs standard reporting periods -</u> Section 5.2 says that frequency of reporting should be a "continuous process." SEC's guidance on disclosure of material issues addresses this in and between standard reporting periods. Applying this to non-financial capitals (and using materiality concepts) is likely to be more problematic. Organizations have continuous systems for managing non-financial capitals (such as management systems). (130)
- <u>Reporting negative news -</u> How do you address the risk of a company that reports incredibly close to the spirit of the Framework, however, twists their value creation story to cover up for outcomes they indirectly cause, such as decreasing a population's health or intelligence? The companies that really should be reporting on an "integrated" basis the most are often the most dangerous to civilization's best interest. (147)
- <u>Legal implications of <IR> -</u> It may also be helpful if the final Framework were to recognise that different reporters will be subject to different regulatory obligations and that any conflicting regulatory obligation has to take precedence over the Framework (158).
- <u>Legal implications of <IR></u> "In Australia, there remains the potential for directors to be personally liable for the disclosures within the integrated report, and this is of particular concern given the future orientation of the disclosures required and the lack of protection provided to directors by the Australian corporate law

framework; • financial information included within an integrated report may vary depending on the accounting framework under which such information is prepared, and users need to be aware of this when making comparisons; and there may be challenges for organisations that operate in multiple jurisdictions, particularly if each jurisdiction has differing integrated reporting requirements. (164)

- Legal implications of <IR> - "We believe that the legal perspective should be more fully developed in the framework, as the document is vague regarding the relevant legal implications of disclosures in an integrated report. For example when making long-term forward looking statements regarding strategy and the creation of long-term value, a company may make open itself to litigation unless there are sufficient safe harbor provisions surrounding the statements. The exposure draft does not address whether there are legal consequences of not complying with the framework, nor what mechanisms are in place to ensure the consistency, completeness and accuracy of an integrated report (e.g. in the framework it is not mentioned if and who will assess and verify if an Annual Report contains all the elements necessary to make it an integrated report)." (256)
- Outsourced services – "Recommend emphasizing responsibilities for outsourced services." (114)
- Consider findings from the Global Competitiveness Report especially in areas where information is lacking and see how IR can facilitate such vital information to be maintained. (134)
- Externality pricing risk – "At present, the IR framework does not provide any suitable guidance for integration of such potential externality pricing risk that would allow investors to compare the reported data under the accounting standard with at least acknowledgement by the company of the level of potential risks to the accuracy of those asset values. Such stronger guidance would ensure that analysts and investors rightfully questioned the accounting values providing additional reporting value for the investors." (156)
- Inclusion of disability as a material topic – "In such context, the CSR+D Network stresses that the inclusion of disability, as a material topic to be considered in a sustainable oriented strategy and in the integrated reporting. The contributor provides reasons why this is important." (195)
- Compliance with <IR> - "It is unclear how the compliance of organisations claiming to comply with Framework will be regulated. This could have negative reputational consequences for the entire Framework." (212)
- Cash flow and real time information – "Beyond reporting the past only, the need for real time "cash flow" information is paramount! (Transparency is great, given typical 22weeks of annual report preparation for a mid-market firm, with this comprehensive <IR> reporting, realistically how much longer does it take to have the new <IR> report prepared? That is assuming the firm itself or the to-be-hired consultants would be able to understand all the issues and implications covered and have the right answers to be included in the report! In fact with the brilliant details covered by the <IR> process, the management should indeed have a blue print for success once their report is produced! Surely, even UK government is demanding 'real-time' PAYE information, every good companies know the real key to the business' success and survival is their life-blood: namely cash flow. Given how vitally important cash-flow is for any firm's survival as a company going concern, we are surprised that the wording "Cash flow" is only mentioned four times in the whole of the consultation document. We trust therefore more emphasis should be spent on what is key for the corporations' success, survival and what might be needed for it to thrive.)" (232)
- Technology – 066 AECA will launch an online repository for XBRL reports inspired in all these developments which will be publicly available for firms that intend to start reporting on XBRL.
- Reporting on the feedback loop – Respondent 268 says "Page 7 should include the concept of how a company has learned lessons from past operations and history, including mistakes and things gone wrong. I.e. a clear depiction of a feedback loop. The framework could address this by adding a new question OR sub-bullet under risks/opportunities such as: "How does the organization implement controls to avoid losses from risks? How do you create a learning organization – good and bad?""
- Sustainable performance and context-based sustainability – Respondent 242 says "Maintaining multiple capitals is the core requirement of organizations that wish to operate in a sustainable way. IIRC should not sidestep the issue of "what represents sustainable performance?" This question should lie at the heart of <IR Context is recognised by IIRC as crucial to effective <IR>. However, the Framework fails to specify how to include sustainability in <IR>. Context-Based Sustainability is a well-defined process that requires each organization to set its own sustainability norms in its own local context (recognising that some context is global). Actual performance can then be compared to the relevant sustainability norms. Without this

yardstick, it seems to me that it is impossible to answer the vital question; "to what extent has the organization performed sustainably?"

- System and strategy dynamics are suggested by 018 as a possible solution to the implementation of <IR>.
- Report structure/output – Respondent 087 says "There needs to be a visible separate section where the organization briefly explains its integrated reporting, including an explanation on important omitted items of the IR framework. Also this section could provide all required information/disclosures as mentioned in section 5 of the framework (information on frequency, materiality, material matters, involvement of those charged with governance, credibility and reporting boundary). By separating this kind of explanatory, compliance related or sometimes compulsory information from the rest of the report, one can prevent that the natural flow of information and narrative/storytelling is interrupted."
- Conciseness and clutter – Respondent 185 says "It seems that the introduction of a form of integrated reporting in South Africa has not resulted in the shortening of, or removal of "clutter" from, annual reports. In this respect, the IIRC needs to develop proactive strategies for removing "clutter", not least because its own activities, if unchecked, may lead to significantly increased volumes of information. Without clarity on how to declutter reports, it may be hard to win over the sceptics who are already overwhelmed by the amount of information provided in reports." Respondent 260 makes similar points in the context of US regulatory reporting.