

ANALYSIS OF FRAMEWORK

CHAPTER 1: OVERVIEW – OTHER

Question 4: Please provide any other comments you have about Chapter 1.

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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A – OVERVIEW

- A1 201 out of 352 respondents answered this question with the responses mainly focusing on the audience for <IR>. Many respondents were in favour of and many against providers of financial capital being the primary audience; others did not make a clear statement in favour of one or the other. Other important matters raised were omitting information (which might give room for avoidance) and emphasizing the importance of integrated thinking. These two points are not considered controversial.

B – AUDIENCE FOR <IR> (paragraph 1.6-1.8)

- B1 88 respondents commented on the audience for <IR>. Some argued that investors are a diverse group and suggested focussing on long term investors. Such an investor perspective might be a starting point, and after assessing, how far stakeholder interests and investor interests align over time, the audience might be expended to an all-stakeholder approach. Other respondents argued for an all-stakeholder-approach, with a few of them in favour of merging financial and sustainability reporting completely to have One Report. The remaining respondents made comments on the primary audience, without (clearly) preferring investor or stakeholder approach.
- B2 The comments on “audience for <IR>” were mainly on 1.6, where providers of financial capital are stated as the primary audience. There are few comments explicitly on 1.7 and 1.8.

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

Question 4 – OTHER (CHAPTER 1)

B3 The responses received came from a mix of stakeholder groups. The arguments for or against providers of financial capital being the primary audience were similar across all stakeholder groups, therefore the following analysis has been performed based on position rather than stakeholder perspective.

Stakeholder group	Number of responses	Preference – Providers of financial capital	Preference – Broader audience	Preference - unclear
Providers of Financial Capital	10	8 (80 %)	2 (20 %)	0
Report preparers	22	9 (41 %)	7 (32 %)	6 (27 %)
Policy Makers, Regulators and Standard Setters	10	3 (30 %)	4 (40 %)	3 (30 %)
Professional Bodies - Accounting	13	9 (69 %)	4 (31 %)	0
Professional Bodies - Other	7	4 (57 %)	1 (14 %)	2 (29 %)
Assurance Providers	10	6 (60 %)	2 (20 %)	2 (20 %)
Academics	4	1 (25 %)	3 (75 %)	0
Individuals	3	1 (33 %)	2 (67 %)	0
Non-Governmental Organisation	3	1 (33 %)	2 (67 %)	0
Consultants	6	1 (17 %)	4 (66 %)	1 (17 %)
Total	88	43 (49 %)	31 (35 %)	14 (16 %)

PROVIDERS OF FINANCIAL CAPITAL AS THE INTENDED AUDIENCE

B4 43 out of 88 respondents (49%) are in favour of providers of financial capital being the main audience. In addition to providing support, respondents would also like the Framework to:

- Clarify the term “providers of financial capital”, as those are a diverse group: For example:
 - Does this include providers of equity and/or debt capital?
 - Should there be a stronger focus on long term capital providers, or are short, medium and long term capital providers equally important?
 - The Australia Financial Reporting Council (#158) raises concerns of the phrase “providers of financial capital” as it encompasses a broad class of potential users and asks that the audience be clarified and suggests: “For organizations whose securities are traded on public exchanges, the FRC believes that <IR> should be primarily targeted at: (1) sophisticated institutional and professional providers of financial capital, since it is they who, from a global perspective, make the majority of the decisions about the allocation of capital and it is their allocation decisions that usually drive the market price of a reporter’s securities; and (2) the professional advisers to other types of providers of financial capital.”
- Clarify the information needs of investors’
- Stress that information should only be included when it is material for investors’ decision making
- Keep the investor orientation, underlining, that all stakeholders will benefit from this
- Keep the primary focus on investors, but to also allow for an all stakeholder approach. One states that the focus should be on long term oriented investors
- There should be a stronger focus on long term oriented providers of financial capital.

Question 4 – OTHER (CHAPTER 1)

BROADER AUDIENCE

B5 31 out of 88 respondents (35%) are in favour of a broader audience, so the integrated report can serve all stakeholders.

"The Framework states that its primary audience is "providers of financial capital". Although we question whether this focus may be too narrow, and whether an integrated report should ultimately be aimed at a broader range of stakeholders (insofar as they are relevant from a value creation perspective), we acknowledge that the providers of financial capital provide an appropriate starting point in the short term." (Ernst & young, #252)

"...Since IR report is principally addressing the concerns of just one stakeholder group 'Investors' this limits its usefulness to other stakeholder groups. However, for an IR report to be credible the needs of all relevant stakeholders have to be considered and responded to... (MAS Business, #334)

B6 Reasons given to support a broader audience include;

- The focus on investors might limit decision-usefulness for other stakeholders
- Investor orientation contradicts the concept of the six capitals, when financial capital is by far more prominent than the other five; all stakeholders' interests should be considered equally, all six capitals should be equally important
- Preference for "One Report"
- Investors are not interested in non-financials and will not use an integrated report
- Ensure that all material stakeholder concerns are addressed
- Financial capital has too much prominence compared to the other five capitals.

B7 One submission recommends to revise 1.7 (and 2.38) as all stakeholders will rather benefit from integrated thinking (through better capital allocation) than from the integrated report

UNCLEAR

B7 14 out of 88 respondents (16 %) do not give a clear statement, rather the responses are mixed and offer different opinions or suggestions, such as;

- Companies should determine their integrated report's audience / the "basic audience" is not clear.
- The Framework says that investors should be the primary audience, but it continues to take a lot about stakeholders.
- There should be a stronger emphasis on stakeholders' interests, e.g. considering them in the materiality assessment.
- The audience might be too narrow, as it is narrower than in state-of-the-art sustainability reporting.
- The differences between sustainability reporting according to the GRI Framework and integrated reporting according to the IIRC Framework should be clarified as both are addressed to stakeholders.
- Should providers of financial capital be the primary audience, especially, when governments or NGOs prepare integrated reports?
- The audience will depend on the final definition of the Guiding Principles.
- How are other stakeholders' expectations to be considered?

Question 4 – OTHER (CHAPTER 1)

AUDIENCE FOR <IR> FRAMEWORK RECOMMENDATIONS

- B8 One professional accounting body recommends to revise 1.7 (and 2.38) as all stakeholders will rather benefit from integrated thinking (through better capital allocation) than from the integrated report.
- B9 9 respondents commented on paragraph 1.8 that “the interests of providers of financial capital who take a long term view of an organization’s continuation and performance are likely to align over time with the interests of other stakeholders because both are focused on the creation of value in the short, medium and long term.”
- This statement was challenged by 3 respondents (1 Professional Body – Accounting, 2 Policy Makers, Regulators and Standard Setters)
 - The Integrated Reporting Committee from Africa (# 189): *“The assumption that the interests of the long-term investor and other stakeholders are likely to align (1.8) is not necessarily true. For example, if a power plant is constructed it will have a finite design life, e.g. 30 years. The long-term investor will invest in such a project on the basis of earning a return over the life of the plant (or a shorter period). After 30 years the plant would be shut down and decommissioned and the provider of financial capital would have no further interest. However, that the natural resources drawn by the plant during its life may have been depleted would be of crucial importance to other stakeholders such as civil society or the local community. The fact that consequences may be removed in time and distance from the cause makes it almost impossible to link long-term impacts to company actions.”*
 - 1 Report Preparer “proved” this statement wrong by pointing out, that short term investors are stakeholders as well and that their interests did not align with those of long term investors.
 - 1 Professional Body – Accounting and 1 Non-Governmental Organization agreed with this statement.
 - 1 Report Preparer, 1 Professional Body – Accounting and 1 Professional Body – Other questioned whether this statement actually proves true in reality and recommended further discussing this.

C – OMITTING INFORMATION (paragraph 1.11-1.12)

- C1 Per paragraphs 1.11 and 1.12 of the Draft Framework:
“Any communication purporting to be prepared in accordance with the Framework should apply all the principles-based requirements identified in bold italic type unless, and to the extent, the unavailability of reliable data, specific legal prohibitions or competitive harm results in an inability to disclose information that is material.
- Where the unavailability of reliable data, specific legal prohibitions or competitive harm result in an inability to disclose information that is material, an integrated report should:*
- *Indicate what information has been omitted*
 - *Explain the reason why the information has been omitted*
 - *In the case of the unavailability of data, identify the steps being taken to obtain the data and the expected time frame for doing so”.*
- C2 There is concern from 7 submissions that this statement might leave too much room for avoidance; FEE suggests that the wording should be changed to “significant competitive harm”. There also should be clarification between the inability to provide information and the unwillingness to provide information.
- C3 5 submissions argue that cost/benefit ratios should be considered and should also be a reason to omit information.

D – INTEGRATED THINKING (paragraph 1.15-1.17)

- D1 12 submissions stated that integrated thinking is crucial for preparing an integrated report and should be given more prominence in the framework.
- D2 Importance of processes and internal controls should be stated
- D3 1.17: Companies/groups with several business models should be mentioned

Question 4 – OTHER (CHAPTER 1)

E – A PRINCIPLES BASED APPROACH (paragraph 1.13-1.14)

- E1 There were 13 submissions in favour of the principles-based approach:
- 2 submissions from the group “Consultants” ask for more guidance respectively suitable criteria.
 - 7 submissions oppose, more or less strictly, the definition of KPIs or measurement protocols by the IIRC
 - 3 submission state the principles-based approach leaves room for avoidance or limits comparability.
 - 1 submission states the Framework is too complex and too demanding for companies.
- E3 A further 10 submissions asked for more clarifications, guidance, suitable criteria or KEY performance indicators – all meaning that the principles-based approach alone is not sufficient, but without stating whether they are in favour or against it.

F – INTEGRATED REPORTING <IR> DEFINED (paragraph 1.2-1.4)

- F1 One Report Preparer says that: *“1.2 mentions a ‘periodic’ integrated report, which is later stipulated as annual in 1.18 and 5.2. Why not state annual, too, in 1.2?”*
- F2 1.3: “Business model” should be mentioned.

G – OBJECTIVES OF <IR> (Paragraph 1.5)

- G1 Feedback on the objective of <IR>:
- The objectives of integrated reporting are defined, but not the objective(s) of the integrated report. (Report preparer)
 - Clarification is need over the objectives of <IR>, specifically over paragraph 1.5 and that integrated reporting is not “One Report”
 - The Charity Commission for England and Wales (#79) and Hermes (#132) proposed to amend 1.5: *“we think that any description of the IIRC’s aim should include a clear reference to ‘assist companies to better communicate how, over time, they create value; avoid the destruction of value; and transform value creation for customers and other stakeholders into financial value for their investors and other providers of financial capital.”*

H – OBJECTIVE OF THE FRAMEWORK (paragraph 1.9-1.10)

- H1 There were 20 submissions asking to revise paragraph 1.10 and to open the Framework for all organizations and an additional 7 submissions asking to consider the applicability for SMEs.

APPENDIX – OTHER COMMENTS

- One Assurance Provider recommends that requirements are not spread over the whole framework.
- There were 5 submissions (3 Report Preparers, 1 Professional Body – Accounting, 1 Policy Maker, Regulator, And Standard Setter) concerning conciseness, arguing that it might contradict materiality and completeness and needs to be defined.
- There are 6 submissions (2 Report Preparers, 2 Professional Bodies – Accounting, 1 Academic, 1 Consultant) asking to stronger emphasize consideration of stakeholder expectations, e.g. in materiality assessment. Moreover, there was 1 comment from a Provider of Financial Capital, that IIRC should not only create an <IR> framework, but also impact other standard setters' frameworks: Therefore, the materiality definition for <IR> may not be inconsistent or incompatible with those definitions of other important standard setters.
- In 1 comment from the group "Academic" the question is asked whether <IR> will be voluntary or mandatory?
- One Non-Governmental Organization states that <IR> should not result in an additional report. 1 Individual states that there should be no additional reporting burden for report preparers through <IR>.
- There were 5 comments (4 Report Preparers, 1 Policy Maker, Regulator and Standard Setter) that <IR> should be better distinguished from other existing reports.
- If one or more capital(s) aren't included in the integrated report, it should be stated out, why (1 comment – Consultant).
- "Stewardship" should be an objective or a guiding principle (1 comment, Assurance Provider).
- One comment from the group "Report Preparers" recommends changing the Guiding Principle "stakeholder responsiveness" to "stakeholder engagement".
- One Consultant stated, that the interaction with other reporting frameworks is communicated in the framework, but not the interaction with management frameworks, such as ISO 31000 or COSO, although integrated thinking is mentioned.
- 2 comments from the group "Report Preparers", criticising that Guiding Principles and Content Elements overlap, e.g. strategic focus and future orientation/strategy and resource allocation/future outlook.
- Sustainability should be stronger emphasized in the Framework. (1 comment, Professional Bodies – Other)
- "The Framework would benefit from being divided into two sections. One with the actual principles (now written in bold) plus strict requirements and another section with all the text that motivates or explains the principles. As the Framework is currently written there is a lot of text that seem to build up argumentation for the principles and requirements, which make the Framework difficult to read and sometimes quite repetitive." (1 comment, Report Preparer).
- There should be more examples in the framework (1 comment, Professional Bodies – Accounting).
- "The ED makes some statements that are not widely supported by facts or references. These statements are largely in favour of the concept of integrated reporting. Section 1.16 is one such example ("integrated thinking leads to integrated decision-making and actions that consider the creation of value over time...")." (1 comment, Consultant)
- "I strongly believe that what company reports lack the most is in-depth analysis and interpretation of performance, past and expected. If integration does not tackle this issue, we risk burdening companies with an additional report that will remain unread." (1 comment, Other Report User).
- "The framework is very dense and theoretical and could be a challenging read for busy executives or corporate executives who are new to the space. The report seems like more of a white paper on the theory of IR, versus a framework for application." (1 comment, Report Preparer)
- There was 1 comment from a Report Preparer, complaining that capitals are the heart of <IR>, but not mentioned in Chapter 1.
- Time frame (short, medium, long term) should be defined (2 comments: 1 Report Preparer, 1 Academic).