

International <IR> Framework: Technical Issues

Objective

1. To review the draft of the Framework, revised following public consultation, and:
 - Confirm the Working Group's¹ treatment of key technical issues arising from feedback on the Consultation Draft (CD)
 - Endorse the Framework for public release.

NOTE: THIS PAPER and ITEM 3b ARE NOT CONFIDENTIAL. THEY WILL BE POSTED TO THE IIRC WEBSITE PRIOR TO THE MEETING IN ACCORDANCE WITH THE IIRC'S DUE PROCESS

Proposed actions

Prior to the meeting

2. Discussion in the meeting will proceed on the basis that all members have:
 - Read this memo and its appendices
 - Contributed, to the extent they felt necessary, to the Working Group's deliberations on key technical issues either through participation at the October Working Group meeting or on one of the two webinars held for Council members on the day prior to that meeting
 - Reviewed the draft revised Framework at Item 3b for fatal flaws.

At the meeting

3. Council will be:
 - Briefed on the Working Group's consideration of key technical issues, with discussion focusing on the matters highlighted in paragraphs 21-39 of this memo
 - Asked to:
 - Discuss fatal flaws, if any, identified by members
 - Endorse the Framework (subject to final formatting and editorial review).
The IIRC's due process requires endorsement by at least two-thirds of the Council's total membership.

After the meeting

4. If the Framework is endorsed at the meeting, the intention is to subject the document to final formatting and editorial review, and release it publicly in final form during the week beginning 9 December 2013. It is expected to be accompanied by two staff-prepared documents (current drafts are available on request):
 - A Basis for Conclusions that includes the substantive content of this memo, including Appendix 2
 - A further accountability document that identifies at a more detailed level how various issues raised by respondents to the CD were treated, and maps significant changes in structure and movements of text.

¹ For Working Group membership, see www.theiirc.org/the-iirc/structure-of-the-iirc/iirc-working-group

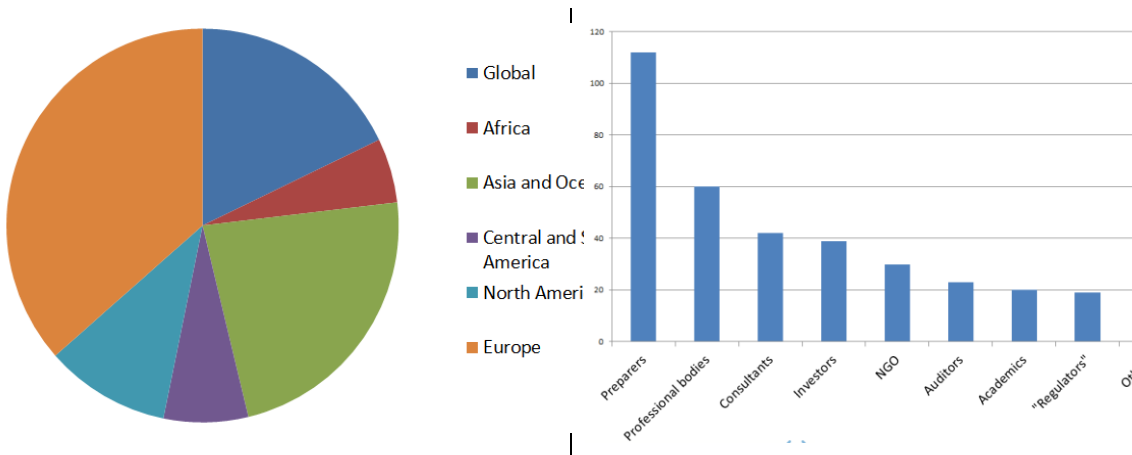
International <IR> Framework: Technical Issues

Process to date

5. We are in the *3rd and final stage* of developing the Framework. This stage started with publication of the Consultation Draft (CD) in April 2013 and is planned to end in December with release of the Framework. Technical projects will continue after release of the Framework. (A list of potential technical projects currently being considered is available at <https://theiirc.box.com/s/t326634utwfy5k9ijvjc>.)
6. The *1st stage* was the development of the Discussion Paper released in September 2011.
7. The *2nd stage* was the development of the CD, from December 2011 till April 2013. It involved:
 - Analysis of feedback on the Discussion Paper
 - Discussions at the Pilot Program (PP) Conference, webinars, and regional meetings, involving both the Business Network and the Investor Network participants
 - Research on business models, the capitals, connectivity, materiality, and value creation, conducted by Technical Collaboration Groups and published as a series Background Papers
 - Publication of an Outline and then a Prototype Framework
 - Discussion at 4 Working Group meetings, and out-of-session comments from Working Group members
 - Line-by-line review of numerous iterations and refinements by the Technical Task Force over fifteen 2-hour conference calls and 9 days of physical meetings.
8. At all stages, there has been extensive outreach activities around the world, including roundtables, seminars, presentations, and workshops.

Consultation Draft

9. The CD was open for comment from 16 April till 15 July 2013:
 - We received 359 submissions, from every region of the world, and representing all stakeholder groups:



- Many of the submissions were from groups – when individuals and organizations named in group submissions are included, the total from whom submissions were received is over 600

International <IR> Framework: Technical Issues

- During the consultation period, people from 175 countries visited the IIRC website
- The full submissions are publically available at <http://www.theiirc.org/consultationdraft2013/>
- A Word cloud of comments is included FYI as Appendix 1 to this paper.

Analysis of Consultation Draft feedback

10. Comments were analyzed by 16 individuals, each of whom looked at one question, or a small group of related questions. Their analyses are publically available at <http://www.theiirc.org/resources-2/framework-development/technical-agenda-papers>.
11. The three IIRC Technical Directors considered the relative importance of, and links between, the key issues emerging from individual question analyses, and how they related to past discussions.
12. Technical Task Force² (TTF) members read individual submissions to the extent they considered necessary and, over the course of four 2-hour conference calls and one 3-day physical meeting, collectively reviewed:
 - Each of the question-by-question analyses
 - Input from the Investor Testing Group, and a Technical Collaboration Group researching assurance issues
 - Successive iterations of changes to the CD, resulting in the revised draft discussed at the Working Group meeting in October (available at <http://www.theiirc.org/resources-2/framework-development/technical-agenda-papers/>).
13. The Working Group spent over half of its 2-day meeting reviewing the revised draft and deliberating on the TTF's recommendations for how the key technical issues identified in paragraphs 19 and 20 of this memo should be dealt with. For all but one issue (see paragraphs 33-39 below), the Working Group agreed with the substance of the TTF's recommendations.
14. The Working Group voted to recommend the draft Framework to the Council incorporating such wording revisions that reflect discussion at the meeting as approved by the Working Group chair (Ian Ball), the TTF chair (Charles Tilley), and the CEO (Paul Druckman). All members present voted in favour with one abstention. The abstention was not based on a substantive objection to the content of the draft, but a reluctance to vote without having seen the revised wording before its submission to the Council.
15. Amendments to reflect discussion at the Working Group meeting were drafted by the TTF during a subsequent 2-day meeting and a further conference call, and were duly approved by the Working Group chair, the TTF chair, and the CEO via conference call.

Considerations in making changes

16. While the number of submissions supporting a particular position was considered in revising the draft Framework, this was certainly not the only, or necessarily the most important, matter considered. Other considerations included whether proposals:

² For TTF membership, see www.theiirc.org/the-iirc/structure-of-the-iirc/technical-task-force

International <IR> Framework: Technical Issues

- Were:
 - consistent with the objectives of <IR>
 - consistent with the principles-based approach, the exercise of judgement, and continued innovation (in particular, few changes were made to increase the level of granularity/specificity regarding reporting methodology and “how to” issues)
 - practical to implement given <IR>’s current stage of evolution
- Focused on the preparation and presentation of the integrated report
- Improved the clarity of concepts
- Enhanced the connection between concepts
- Resulted in a more logical structure
- Minimized duplication
- Improved accessibility, e.g., through the use of plain language.

Overall view

17. Given the range of issues addressed and views expressed in submissions, it is difficult to make generalizations about comments received.
18. It is, however, fair to say that the vast majority of submissions received were supportive of the CD. For example, only 14% of submissions disagreed or expressed a major reservation in answer to the question: *“Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization’s ability to create value in the short, medium and long term”.*

Key technical issues and changes

19. The four technical issues subject to most debate at the Working Group meeting are summarized below for discussion by the Council. They relate to:
 - Relationship with other information (paragraphs 21-23 below)
 - Audience (paragraphs 24-28 below)
 - Value/value creation and capitals (paragraphs 29-32 below)
 - Involvement of those charged with governance (paragraphs 33-39 below)
20. Other key technical issues discussed at the Working Group meeting are summarized in Appendix 2. They relate to:
 - Fundamental terminology
 - Materiality – terminology
 - Suitable criteria for preparation, presentation and assurance
 - Measurement and KPIs
 - Legal liability and competitive harm.

International <IR> Framework: Technical Issues

Relationship with other information

21. Although the majority of respondents agreed with how the CD described the interaction between <IR> and other reports and communications, there was significant confusion about:
 - How an integrated report aligns with, refers to and avoids duplication with other reports and disclosures (e.g., financial and sustainability reports)
 - Whether the concepts and principles of <IR> should be applied to existing corporate reports and communications and/or presented in a separate report.
22. The Working Group has made changes to deal with the form of an integrated report and its relationship with other information as described in paragraphs 1.13-1.17 of Item 3b:

- 1.13 ***An integrated report should be a designated identifiable communication.***
- 1.14 An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time.
- 1.15 An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also in accordance with this Framework it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.
- 1.16 An integrated report may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. For example, it may be included at the front of a report that also includes the organization's financial statements.
- 1.17 An integrated report can provide an "entry point" to more detailed information outside the designated communication, to which it may be linked. The form of link will depend on the form of the integrated report (e.g., for a paper-based report, links may involve attaching other information as an appendix; for a web-based report, it may involve hyperlinking to that other information).

23. Various diagrammatical representations of the relationship between an integrated report and other information were considered. It was concluded that, because of the variety of reporting practices across jurisdictions, it would not be possible at this stage to include a universally-applicable diagram in the Framework. Consideration is, however, being given to undertaking a project to describe possible pathways towards Integrated Reporting that can help organizations determine the most suitable pathway based on its context and circumstances.

Audience

24. There has been general agreement amongst IIRC governance bodies for some time that the primary purpose of an integrated report is to explain to providers of financial capital (particularly those with a long term view of an organization's continuation and performance) how an organization creates value over time.

International <IR> Framework: Technical Issues

25. Nonetheless, there was a desire amongst a number of respondents for an integrated report to meet a much broader set of information needs, with over one-third of respondents expressing concern that the CD:
 - Placed financial capital ahead of the other five forms of capital
 - Ranked investor interests above those of other stakeholders
 - Implied that monetization of information is necessary.
26. The Working Group did not consider a fundamental change to be justified but, taking comments received into account, agreed to revise paragraphs 1.7-1.8 of Item 3b (what were paragraphs 1.6-1.7 of the CD) to effectively:
 - Shift the 'primary' qualifier from report *audience* to report *purpose*
 - Draw an explicit tie to value creation, a connection that many felt was lacking and that the Working Group agreed could be emphasized more
 - Elevate the understanding, or expectation, that providers of financial capital consider factors *beyond* financial capital alone.

Consultation Draft

- 1.6 ***An integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments.***
- 1.7 Although providers of financial capital are the primary intended report users, an integrated report and other communications resulting from <IR> will be of benefit to all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers.

Revised draft Framework

- 1.7 The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It therefore contains relevant information, both financial and other.
- 1.8 An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers.

27. Underlying this position is the view that:
 - Providers of financial capital can have a significant effect on the allocation of all types of capitals by determining which organizations to invest in. Even for respondents whose driving interest in <IR> is the contribution it can make to a sustainable planet, how financial capital is directed is one of the keys; it is this key that <IR> is addressing. <IR> helps direct financial capital to sustainable businesses; a sustainable planet and a stable economy require sustainable businesses that support broader societal interests by undertaking long term, as well as short and medium term, value creation within planetary limits and societal expectations.
 - Trying to aim at all stakeholders would be a virtually impossible task, particularly in a concise report – to aim at all stakeholders would reduce focus and increase length, which is contrary to the objectives of <IR>.
 - Reports aimed broadly at the information needs of a broad range of stakeholders tend to deal with impacts, rather than value creation – again this is not the objective of <IR> (it is more within the ambit of sustainability reporting).

International <IR> Framework: Technical Issues

28. This is not to be misunderstood as saying that integrated reports lack interest for other stakeholders, or that an organization's relationships with other stakeholders are unimportant. On the contrary:
- Many stakeholders are interested in the ability of an organization to create value over time. Integrated reports are of benefit to them, as clearly reflected in paragraph 1.8.
 - Stakeholder's legitimate needs and interests are mentioned throughout the Framework, particularly in the Guiding Principle *Stakeholder Relationships*, in recognition of the fact that value is not created by or within an organization alone, but is created through relationships with others, as discussed in the Fundamental Concepts in Chapter 2 of Item 3b. <IR> reflects the importance of relationships with key stakeholders and requires that an integrated report provide insight into the nature and quality of the organization's relationships with them, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Value/value creation and capitals

29. There was no specific question in the CD about value, but it was clear from responses that there was some confusion around: what is value, what is value creation, value for whom, and does value/value creation need to be quantified?
30. Some of the options (which are not mutually exclusive) considered for how to best explain value/value creation included that value is:
- The total of all the capitals
 - Benefit "captured" by the organization
 - The market value/cash flows of the organization
 - The successful achievement of the organization's objectives
 - Made up of two interrelated components, being value created for: (a) the organization itself, and (b) others.
31. A further option considered was to require the organization to explain what it means by value, or what its stakeholders see as value/valuable.
32. The Working Group:
- Concluded that the Framework should not define value from any one particular perspective because the concept of value, like beauty, it is in the eye of the beholder: what constitutes value depends on an individual's own perspective. Rather, paragraph 2.4-2.9 of Item 3b explain that value created by the organization: (a) manifests itself in increases, decreases or transformations of the capitals, and (b) has two interrelated aspects (value created for the organization and for others) that are linked through a wide range of activities, interactions, and relationships.
 - Reconfirmed the position in the CD that value/value creation need not be quantified and that an integrated report should not attempt to place a value on an organization – assessments of value are the role of others using information in the report (see paragraph 1.12 of Item 3b).
 - Agreed to:
 - Include a definition of "value creation" in the Glossary that is based on the explanation in paragraph 2.4 of Item 3b

International <IR> Framework: Technical Issues

- Give further emphasis to the fact that the term value *creation* as used in the Framework includes instances when value is *preserved* and when it is *diminished* (see paragraph 1.6 of Item 3b).

Those charged with governance

33. The most contentious issue discussed by the Working Group was whether to require a statement from those charged with governance acknowledging their responsibility for the integrated report. In response to Question 18 in the CD, just over 50% of submissions agreed (fully or with minor qualification) with adding a requirement for such a statement.
34. The main reasons given for support included that such a statement would:
 - Demonstrate that those charged with governance accept their responsibility for the integrated report
 - Assist in ensuring the reliability of disclosures and/or the overall creditability of the integrated report
 - Increase accountability for the content of the report.
35. The main reasons given by respondents who disagreed, or agreed with qualification, related to:
 - No statement being necessary because the CD already stated that those charged with governance “are responsible for ensuring that there is effective leadership and decision-making regarding <IR>, including the identification and oversight of the employees actively involved in the <IR> process” (paragraph 5.17 of the CD; see paragraph 3.41 of Item 3b). It also required disclosure of “the governance body with oversight responsibility for <IR>” (paragraph 4.5 of the CD)
 - The inclusion of a statement may result in additional liability/legal concerns, and the IIRC has not fully considered the impacts of this, e.g., imposing a requirement to include a statement could present a significant impediment to uptake of the Framework in some jurisdictions.
36. The TTF had recommended to the Working Group that, although a statement from those charged with governance should be encouraged, it would be premature to require it in all jurisdictions, at least until legal and related implications are better understood. The TTF had also recommended that the CD’s requirement to identify in the integrated report “the governance body” responsible for the report be changed to “the governance body or the highest level of management”. This was to acknowledge the fact that, particularly in some jurisdictions, those charged with governance do not always take an active role in the preparation and presentation of the integrated report, so the report should tell readers the actual level within the organization from which the report emanates.
37. The Working Group, however, believed on balance that a stronger line should be taken. After considerable discussion, a clear majority of Working Group members agreed that those charged with governance should, in time, be required to take responsibility for the integrated report, at least on a comply or explain basis. This has been included as a requirement in paragraph 1.20 of Item 3b:

International <IR> Framework: Technical Issues

1.20 ***An integrated report should include a statement from those charged with governance that includes:***

- ***An acknowledgement of their responsibility to ensure the integrity of the integrated report***
- ***That they have applied their collective mind to the preparation and presentation of the integrated report***
- ***Their opinion or conclusion about whether the integrated report is presented in accordance with this Framework***

or, if it does not, it should explain:

- ***What role those charged with governance played in its preparation and presentation***
- ***What steps are being taken to include such a statement in future reports***
- ***The time frame for doing so, which should be no later than the organization's third integrated report that references this Framework.***

38. Arguments from Working Group members opposed to this approach included that:

- Such a requirement would be inconsistent with legislative or regulatory requirements in jurisdictions where the CEO and/or CFO, rather than those charged with governance, are required to include a similar statement with the statutory annual report
- Requiring a statement might lead to a higher level (real or perceived) of legal liability for matters such as future-oriented information, the response to which might be for organizations to adopt a more boilerplate, compliance-oriented, tick-box approach
- It seems contrary to the market-led, principles-based approach to include a very specific requirement of this nature.

39. The Working Group acknowledged that the combination of the above issues might result in a slower take-up of <IR>, particularly in some jurisdictions, but considered this to be the lesser of two evils; the other being that integrated reports developed without the involvement of those charged with governance could end up being, or being seen to be, "marketing" documents; not only would such reports lack credibility themselves, but the skepticism they induce could discredit the whole <IR> movement.

International <IR> Framework: Technical Issues

APPENDIX 2**Other key technical issues**

This appendix summarizes those key technical issues discussed at the Working Group meeting that are not summarized in the body of the cover memo.

1. Fundamental terminology

1.1 Although the terms “Integrated Reporting”, “integrated thinking” and “integrated report” were defined in the Consultation Draft (CD), responses indicated ongoing confusion over this fundamental terminology, for example:

- Some interpreted the term *Integrated Reporting* as the act of preparing an integrated report. Others thought the term represented a much broader process of connecting all internal and external information to clarify how the organization creates value.
- Some viewed the term *integrated thinking* as embodying internal management considerations and organizational philosophy, elements that may already be captured to an extent under the banner of *Integrated Reporting*.
- Some perceived the *integrated report* as a distinct document that may reference information found elsewhere. Within this group, some viewed the integrated report merely as an executive summary of a wider suite of disclosures. Others perceived the integrated report as a more fluid, nebulous concept encompassing a network of communications. (This point is further discussed in paragraphs 21-23 of the cover memo.)

1.2 These differing interpretations point to a need to:

- Better clarify the meaning of these terms
- Determine the extent to which process, management and philosophy-oriented concepts should be included in the Framework.

Framework considerations

1.3 The Working Group concluded that the Framework should separate:

- Context/process information about integrated thinking and Integrated Reporting (now in the Preface at Item 3b)
- Information about how to use the Framework, and fundamental concepts (now in Part I of Item 3b)
- Content of an integrated report (now in Part II of Item 3b).

1.4 A clearer definition of Integrated Reporting, which identifies how it relates to both integrated thinking and an integrated report, has also been included in the Glossary in Item 3b:

Integrated Reporting (<IR>) is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.

International <IR> Framework: Technical Issues

2. Materiality – Terminology

2.1 Almost 30% of respondents expressed concern over misalignment between the IIRC’s definition of materiality and other common definitions already in use. Some suggested that the IIRC could provide guidance on determining report content without creating “yet another” definition of materiality. Objections to defining materiality in the Framework were rooted in the following:

- The link between materiality and a *financial threshold* is so well entrenched that it could hamper application of the concept to non-financial information
- Materiality carries with it a certain level of “legal baggage”. Some organizations may feel legally compelled to include all information deemed material for regulatory filings in the integrated report.

2.2 To mitigate the above concerns, respondents proposed that the IIRC replace the word “material” with alternatives like significant, relevant, important or priority.

Framework considerations

2.3 While acknowledging the concerns noted above, the Working Group concluded that, on balance, the word “material” should continue to be used in the Framework as it is well understood in the reporting community and its particular application in the case of an integrated report is adequately explained in the Framework. Consideration is also being given to undertaking a project on materiality, including further exploration of the relationship between various established definitions.

3. Suitable criteria for preparation, presentation and assurance

3.1 Various concerns were expressed by respondents as to whether the Framework constitutes suitable criteria both for report preparation and presentation and for assurance. While *suitable criteria* is defined in the auditing or assurance literature, and thus is commonly thought of as an assurance term, the Framework needs to constitute suitable criteria for the consistent preparation and presentation of integrated reports, regardless of whether assurance is sought.

3.2 These concerns resonate in the following:

- What measurement standards or criteria are used for the information reported (*further discussed in Issue 4, below*)
- Whether the integrated report is complete and how a preparer can ascertain completeness
- Whether the appropriate level of connectivity is reflected in the integrated report.

3.3 Accordingly, respondents of all types are looking for the Framework to provide sufficient information for consistent application by preparers. Assurance providers were concerned with the above and, in particular, with the ability to assess future outlook disclosures, and recommended that disclosures be made as to specific criteria used for measurements, range of outcomes and confidence intervals.

International <IR> Framework: Technical Issues

Framework considerations

3.4 The characteristics of suitable criteria (relevance, completeness, reliability, neutrality and understandability³) were considered in revising the Framework, recognizing that comparability will be enhanced by preparers following a framework that provides suitable criteria for the preparation and presentation of an integrated report. To assist in the analysis of comparability, an additional Content Element, *Basis of Preparation and Presentation*, has been included (Section 4H, paragraphs 4.40-4.48 of Item 3b). It requires that the integrated report describe its basis of preparation and presentation, including the significant frameworks and methods used to quantify or evaluate material matters. Also included are two of the requirements formerly included in paragraph 4.5 of the CD, namely:

- A summary of the organization's materiality determination process
- A description of the reporting boundary and how it has been determined.

4. Measurement and KPIs

4.1 Respondents were concerned that the CD lacked specific rules for measurement or specific KPIs, which could result in a lack of comparability across organizations. Respondents requested: (a) further guidance on measurement rules, and (b) more explicit reference to existing core financial and other KPIs.

Framework considerations

4.2 The Working Group reconfirmed the position in the CD that the prescription of specific key KPIs and measurement methods is beyond the remit of a principles-based framework. Also:

- The section on "A principle-based approach" (paragraph 1.9-1.12 of Item 3b) has been strengthened to emphasize the need to include quantitative indicators in an integrated report whenever it is practicable and relevant to do so, and for consistency of measurement methods across different reports/communications
- Although the CD already included brief guidance on the selection of suitable quantitative indicators, that guidance was nested under the Content Element *Performance*. It was agreed that the prominence of this discussion should be elevated and it now appears as a cross-cutting issue in paragraph 4.53 of Item 3b
- Consideration is being given to undertaking a project to develop a database of authoritative, external sources of KPIs.

³ Per the International Auditing and Assurance Standards Board's "International Framework for Assurance Engagements"

International <IR> Framework: Technical Issues

5. Legal liability and competitive harm

5.1 A number of respondents raised concerns about the potential for disclosures (particularly future-oriented ones) to result in legal liability and/or competitive harm.

Framework considerations

5.2 With respect to *legal liability*: The Working Group noted the importance of this issue and the fact that it is being considered by the IIRC from a policy perspective, including the call for “safe harbours” raised by some respondents. The Working Group also retained the exclusion in paragraphs 1.18-1.19 of Item 3b allowing an integrated report to not apply the Framework to the extent that specific legal prohibitions result in the inability to disclose material information, and noted the relevance of the:

- Discussion of completeness (paragraphs 3.47-3.53 of Item 3b, particularly with respect to future-oriented information at paragraphs 3.52-3.53 of Item 3b)
- Reference in paragraph 4.39 of Item 3b to legal or regulatory requirements regarding the Content Element *Outlook*.

The Working Group did not, however, think that substantive changes were needed in the Framework (particularly given its principles-based and market-led nature) to respond to the possibility that some information might, in some circumstances in some jurisdictions, result in a potential legal liability to the preparer.

5.3 With respect to *competitive harm*: The Working Group agreed to revise the wording now in paragraphs 1.18-1.19 of Item 3b (previously paragraphs 1.11-1.12 in the CD). Those paragraphs allow an integrated report to not apply the Framework to the extent that disclosure would cause significant competitive harm. Under the CD, an organization taking advantage of this exclusion was required to indicate what information was omitted and explain why. In the revised draft Framework at Item 3b, this has been replaced with the following guidance:

3.51 In including information about material matters dealing with competitive advantage (e.g., critical strategies), an organization considers how to describe the essence of the matter without identifying specific information that might cause a significant loss of competitive advantage. Accordingly, the organization considers what advantage a competitor could actually gain from information in an integrated report, and balances this against the need for the integrated report to achieve its primary purpose as noted in paragraph 1.7.