#26

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Thursday, March 02, 2017 2:48:30 PM
Last Modified: Thursday, April 27, 2017 1:08:25 PM
Time Spent: Over a month
IP Address: 62.72.102.243

Q6: Any preliminary or introductory comments (Example: If the response is the result of a focus group, please indicate attendees and their respective stakeholder groups).

Integrated reporting is probably the most developed and promising initiative in trying to improve the interconnectivity of various strands of reporting. However, some companies consider that preparing an integrated report is an additional burden to what they are already required to prepare for mandatory reporting. They also find it difficult to understand how integrated reporting fits in with the requirements of other reports. Therefore, a more coordinated – integrated – corporate reporting approach is needed to respond adequately to a more demanding audience.

We consider that one way forward for the IIRC to further develop is continue engaging with other supporting initiatives such as the CORE & MORE concept developed by Accountancy Europe . Both concepts are consistent, recommending to report what is crucial to the value creation of the entity involved. In our follow-up paper 'The Future of Corporate Reporting – creating the dynamics for change' we aim to be a constructive but critical partner to the IIRC and committed to provide more clarity around, and fine-tune how integrated reporting and CORE & MORE relate to each other. The comments below should be seen as one of our contributions to help improving <IR> and enhance its development.

Moreover, the still immature and evolving environment of the broad range of corporate reporting frameworks poses a challenge for preparers of such reports. Implementing the integrated reporting framework can be difficult for an organisation since there are not many practical examples to help tailor the report to their own activities. Even though companies are seeking more consistency, it would be premature to formalise excessively their integrated report.

PAGE 2: Multiple capitals

Q7: Q1(a) What is your experience with the multiple capitals approach in integrated reports?

Some companies find the multiple capitals approach somewhat unclear; others find it to be a too rigid format.

The capitals can, in many cases, only be reported on in the form of narrative, rather than through metrics.

Moreover, the Framework does not make an explicit link between strategy and the capitals.

Q8: Q1(b) What, if anything, should be done and by whom to improve this aspect of implementation?

The IIRC needs to provide clarity on the multiple capitals approach, for instance by guidance on the capitals. This guidance could for example make it clear that a company can use the capitals which are relevant for it, that it does not have to use the descriptions given, and does not have to weight them equally.

In addition, it is important to clarify that not only the multiple capitals are contributors to value creation. For example, value drivers in other areas such as integrity, trust, innovation etc also support value creation.

Considering that the capitals can, in many cases, only be reported on in the form of narrative, rather than through metrics, we suggest that the IIRC develops further guidance on how to use narrative reporting in practice.

We also propose that the preparer of an integrated report should provide insight into how an organisation’s strategy relates to capitals it depends on for its value creation.

PAGE 3: Connectivity and integrated thinking

Q9: Q2(a) What is your experience with connectivity in integrated reports as an indication of integrated thinking and/or enabler of enhanced decisions?

According to input received from people who are working with the IR Framework in practice, the experience with the connectivity principle is mixed. Whereas some companies aim to explain how they respond to material external developments or adapt their strategy, many reports are weak in providing detailed insight into connectivity of ‘factors affecting the ability to create value’. Most reports lack for instance a forward-looking discussion of the risks and opportunities and how these will affect business strategy and capital allocation, do not describe how allocation of (financial) resources to one capital will influence other capitals and how capitals are interdependent at all.

The link between the input and output/outcome measures is also not always clear and is at best qualitative (for example how does an improvement in staff morale or investment in training contribute to better service and thus customer satisfaction and how does that result in improved revenues and/or profits?). The links are generally intuitive and therefore accepted, but many reports are weak in providing detailed insights into the connectivity. An aspect that also plays a role here is that the reported measures often cover only one selected aspect of a broader subject.

Q10: Q2(b) What, if anything, should be done and by whom to improve this aspect of implementation?

In relation to the connectivity principle, we see value in further guidance provide by the IIRC – for example by giving an illustrative company example or by reflecting on current practice – to help preparers in understanding the ambition of the Framework with respect to this principle.

PAGE 4: Key stakeholders’ legitimate needs and interests

Q11: Q3(a) What is your experience with the identification, in integrated reports, of key stakeholders' legitimate needs and interests and how those needs and interests are considered and addressed?

Whereas companies describe generally the way they have identified the material issues that matter to their wider stakeholders and who these stakeholders are, they tend not to explain how stakeholder management and addressing the needs of the relevant stakeholders are embedded in their decision-making and daily business. Equally, people in our network with practical experience on the use of the <IR> Framework note that many companies do not explain how stakeholder needs have impacted the strategy or decisions taken, including the allocation of the capital.

In addition, in many reports, it is unclear what the exact basis/support is for the material items to their stakeholders and what the depth and objectivity of the stakeholder analysis/dialogue is, that leads to the selected material items and measures.

A good example on how a company can interact with its key stakeholders was ACCA's survey to request detailed feedback from their stakeholders on its 2014-2015 report and their overall approach. Also, ACCA gathered input on the issues most important to them from a list of 25 potential material issues. In the following year, ACCA gave more prominence to the issues of high and medium importance revealed by this survey, while complying with the IIRC's content requirements. This kind of transparency could add to the robustness of <IR>.

Q12: Q3(b) What, if anything, should be done and by whom to improve this aspect of implementation?

It may be useful if companies provide more details about their stakeholders' dialogue process to clarify what the exact basis/support is for the material items to their stakeholders and what the depth and objectivity of the stakeholder analysis/dialogue is, that leads to the selected material items and measures.

Furthermore, as the Framework focuses on the primary audience for an integrated report being the financial capital providers, it is important to evaluate how the investors' interests and other stakeholders' interests line up progressively so that a wider stakeholder approach is more evident.

PAGE 5: Materiality and value creation

Q13: Q4(a) What is your experience with the Framework's definition of materiality, in particular: • Application of the value creation lens? • Use of different time periods to identify material matters?

The definition of materiality in the Framework should be aligned with the definition that is also used for financial reporting. That definition puts the user of the information in the centre and considers whether information (or an omission thereof) would affect the user's decision making.

Q14: Q4(b) What, if anything, should be done and by whom to improve this aspect of implementation?

In the case of <IR>, it would make sense to put the key stakeholders that were identified in the centre and judge the impact on their decision making. If stakeholders are indeed most interested in the ability of the entity to create value (for them), the matters that influence value creation the most will be most material.

PAGE 6: Conciseness

Q15: Q5(a) What is your experience with the conciseness of integrated reports?

Some companies indeed present integrated reports which are not concise enough. A company should present a comprehensive and well-balanced report which focuses on relevant and material information.

However, companies should be encouraged to put emphasis on what is important to their stakeholders. If materiality is properly applied and the integrated reporting information is consistent and clear, length should not be a key issue. Some organisations do after all have very complex features to explain.

Q16: Q5(b) What, if anything, should be done and by whom to improve this aspect of implementation?

A proposal that can be considered as a basis for a concise report which addresses the various stakeholders' needs is the CORE and MORE approach developed by Accountancy Europe. Conciseness is applicable to the CORE report which is an overarching report or executive summary to obtain a fair understanding of the key elements of a company's affairs, its key financial results and additional information relevant and material for stakeholders. The CORE report would be accompanied by additional layer(s), the MORE reports, which include detailed or supplementary information for those stakeholders that need more information.

Furthermore, at the moment, the IASB focuses some of its work on the issue of lack of conciseness in its Discussion Paper Disclosure Initiative—Principles of Disclosure. The issue of lack of conciseness in traditional financial reporting is of a similar nature to the issue discussed in respect to integrated reports. We therefore see merit for the IIRC to work together with the IASB in this area to address the problem of boilerplate information and duplication of information.

PAGE 7: Business model – outputs and outcomes

Q17: Q6(a) What is your experience with the reporting of business model information, particularly outputs and outcomes?

With respect to the reporting of business model information, companies are sometimes reluctant to be explicit about their business model. Companies are worried that disclosing their competitive advantage could cause economic harm to the company and could reveal the company's outlook. At the same time, stakeholders ask for more transparency and consider that entities should be able to find the right balance to respond to their needs, i.e. disclose the necessary information about the company's business model without harming the competitive position of the company.

Moreover, it is generally possible to report quantitative information about relevant outputs. Although the outputs often cover only certain aspects of a broader material item, they are understood and measurable. The outcome is sometimes defined on a more abstract, general level and therefore measuring the performance on outcome level is harder.

Q18: Q6(b) What, if anything, should be done and by whom to improve this aspect of implementation?

To address the issue mentioned above in relation to reporting of business model information, one way that could potentially strengthen transparency towards stakeholders consists of developing and sharing a clear definition of the company's business model.

To address the difficulty of measuring the performance on outcome level, thought might be given to developing suitable criteria for outcomes, as more and more companies report on outcomes/value created for others down-streaming their value creation chain (e.g. on Greenhouse Gas emissions that are reduced by customers through their use of the entity's products). Such disclosures largely depend on assumptions made, rather than on adherence to any particular criteria.

PAGE 8: Those charged with governance / Framework identification

Q19: Q7(a) What is your experience with whether reports: (i) identify the involvement of those charged with governance, and (ii) indicate that they are presented in accordance with the Framework? What are the implications of excluding such information?

Sometimes reports do not clearly present the involvement of those charged with governance even though the <IR> Framework provides clear guidance in section 1G on the responsibility for an integrated report. This may mean that the reader has difficulties knowing how the statements made in the report were accepted within the organisation and who takes responsibility for them.

Q20: Q7(b) What, if anything, should be done and by whom to improve these aspects of implementation?

To improve this aspect of implementation, the IIRC should encourage a better application of this specific part of the <IR> Framework.

PAGE 9: Other Guiding Principles

Q21: Q8(a) What is your experience with the application of these remaining three Guiding Principles in integrated reports?

For consistency, the framework focuses on (1) consistency over time and (2) comparison with other organisations. For the first aspect, no further guidance is given. Such guidance would be helpful. In particular, the Framework supports the idea of following the reporting policies consistently over time. While it is important to have certain discipline, consistency over time may not always be desirable. Changes will be required when the strategy changes or when the key stakeholders and/or material items change. However, companies are often reluctant to change and even when they do so, they might not provide a satisfactory explanation of why this change is relevant. Guidance may be helpful to identify how entities should deal with substantial changes, for instance changes in a group of companies as a result of a large acquisition or disposal. For the second aspect, the question is how this should be realised and what the role of the individual organisation is versus the IIRC or industry bodies.

In addition, there is reluctance in presenting forward looking information because users may develop expectations which management will not be able to meet.

Q22: Q8(b) What, if anything, should be done and by whom to improve these aspects of implementation?

In respect to consistency over time, in all the situations mentioned above, changes may/will be needed and the framework would improve if it would provide guidance on how entities can best realise comparability in such situations.

For the question how comparison with other organisations should be realised and what the role of the individual organisation is versus the IIRC or industry bodies, this requires development of a vision from which appropriate actions can be derived.

PAGE 10: Other Content Elements

Q23: Q9(a) What is your experience with how these remaining Content Elements are reported in integrated reports?

For Content Elements like risks and opportunities, our members with practical experience with the <ir> Framework reported that companies are not always clear in their reporting regarding risks and outcome of these risks. Also, they are not always clear on opportunities and what effect these opportunities actually have.

Q24: Q9(b) What, if anything, should be done and by whom to improve these aspects of implementation? *Respondent skipped this question*

PAGE 11: Other quality issues

Q25: Q10(a) Aside from any quality issues already raised in Q1-Q9, what is your experience with the quality of integrated reports?

There are companies which produce an integrated report of low quality. This might be because it is still early days for companies to develop an understanding of their impact in terms of the different capitals and developing genuinely integrated thinking. In addition, this issue often results from not appointing the right persons/team to draft the integrated report.

Q26: Q10(b) What, if anything, should be done and by whom to improve this aspect of implementation?

A company should bring together people from across the organisation, i.e. from management, from operational teams, the steering committee, etc. to prepare the <ir> report. These people should carry expertise from different areas such as financial reporting, sustainability reporting, compliance, internal audit etc and therefore have a holistic overview of the organisation.

Care should be taken that low-quality reports do not impair the reputation and development of <ir>.

PAGE 12: Other enablers, incentive and barriers

Q27: Q11(a) What is your experience with enablers, incentives or barriers to Framework implementation not covered by other questions, including the extent to which they apply particularly to: • Specific jurisdictions? • Large or small organizations? • Private, public or non-profit sectors? • Different stages of Framework implementation?

Barriers to Framework Implementation:

Integrated reports are not always part of the corporate communication.

Another challenge in preparing an integrated report is to link it with the legal reporting framework.

Moreover, the cost to prepare an integrated report is a challenge for small and medium sized entreprises (SMEs). Often these entities do not have the in-house knowledge and expertise to prepare such a report. Many SMEs also do not perceive a concrete benefit to their business. Unless they understand the beneficial impact that intergrated thinking can have on their business - especially in terms of its future performance, they may perceive integrated reporting as just another burdensome excercise.

The Framework focuses on reporting from the perspective of investors. As public sector entities are serving and accountable to a wide stakeholder base, they often have difficulties in applying the integrated reporting principles to their organisation. The fact that the <ir> initiative was not developed with this wider base in mind means that there will be less-take up from the public-sector companies. In addition, there are wide range of additional reporting possibilities in the public sector e.g. service performance reporting, fiscal sustainability reporting etc. which also play a role in this arena.

Q28: Q11(b) What, if anything, should be done and by whom to improve these aspects of implementation?

To be part of the corporate communication, integrated reports should be further improved in terms of the quality and relevance of the information they provide.

It would also be useful to explore how an integrated report conforms with other reports (i.e. narrative reports, sustainability reports, etc) and the concepts applied in those reports to avoid duplication. We encourage the IIRC to work with regulators and standard setters to resolve any difficulties in this area that could appear as barriers to implementing <ir>.

More work needs to be done by the IIRC in the area of SMEs so that they perceive the value of preparing an integrated report.