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

We believe the multiple capitals approach to be a helpful framing but there needs to be more clarity on how it works in practice if it is to meet the needs of investors, the primary audience for the integrated report. In responding to this question (and others in this consultation) we note that we are starting from a position where reporters are preparing financial statements and an integrated report frequently presented as part of the same single publication, an annual report or integrated report. In doing this preparers are seeking to report on how investors are valuing the company, a valuation which will be based on financial and non-financial information.

We see two different views in relation to the capitals, dependent on the experience of the organisation.

- For organisations who are new to integrated reporting/the Framework, the concept of capitals, aside from financial, is new and can be challenging to understand. Organisations appreciate that they do rely on capitals, other than financial, and once acknowledged are challenged in taking the next step of explaining the impact these have on the value created i.e. developing meaningful quantitative performance metrics in relation, for example, to intellectual or social and relationship capital. This is supported by feedback from the US, where uptake of integrated reporting is slow.
- As currently presented within the IIRC's Framework the six capitals are given equal weighting. Organisations that are familiar with the Framework/have experience of applying it, are more likely to view the five non-financial capitals (manufactured, intellectual, human, social and relationship and natural) as precursors to financial measures given the primary purpose of the integrated report is to explain to providers of financial capital how an organisation creates value over time. Measurement and reporting are trending towards placing financial measures against all capitals, not just the financial capital. It could therefore be surmised that many organisations give financial capital a greater 'weighting' than the others. With the other five capitals leading, ultimately, to financial value.

We have noted, based on discussions with others and our own experiences, that the question frequently asked by reporters is 'Do I need to use these terms' (i.e. the six <IR> capitals). Many organisations do not use the same terminology as the Framework however this does not mean that they are not thinking about the same themes/areas.

For many organisations focus and attention is placed on those capitals which are deemed most relevant to long term value creation. This may encompass all six capitals but in many instances it is fewer. The six capitals are not equal to all companies and many organisations are finding their own way of describing the resources and relationships they use to create value. Furthermore organisations are exploring their understanding of the 'trade off' between capitals and how this can be measured and then articulated in relation to long term value creation.

We observe the rise in the market of the term 'pre-financial' rather than 'non-financial'. This was of particular note at the ICGN/IIRC conference in December 2016 where the terminology 'pre-financial' appeared to be gaining popularity and momentum. Looked at through the investor lens the concept of 'pre-financial' makes some sense albeit with limitations. It may serve in attempting to provide a link between narrative reporting and financial statements. However this is leading to confusion as to the definition, and aims, of 'pre-financial'. Regarding financial capital, we are aware some interpret financial capital as being that which is reflected in the balance sheet and others, a broader monetary value which goes beyond that reported in the financial statements.

Is this about converting everything into financial value (on balance sheet) or explaining how the capitals have a financial impact linked to value creation. Sometimes value creation is unrecorded goodwill, the value of being a good corporate citizen will not always translate into hard financial data. Should the term 'pre-financial' continue to gain prominence, clarity of definition and consistency of understanding should be sought.

We note that in South Africa where integrated reports are for wider society, rather than primarily for investors, the non-financial elements of the report are very important. Seeking to report in greater financial terms, placing a financial value against a broader range of currently non-financial measures, may not be positively received by users.

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

We suggest that the IIRC review the Framework to provide clarification in the following areas:

- To reflect that in practice the integrated report is, usually, not separate to the financial statements. The enlightened shareholder will be looking to both to understand how the organisation creates value. This is not to say that an integrated report which is standalone and separate to the financial statements will be unable to fully explain long term value creation, indeed it should do this in line with the objectives of the Framework.
- The relationship between capitals (in integrated reporting), metrics used in the audited financial statements and other required/regulatory reporting.
- The materiality of capitals to the creation of long term value and how this enables a focus on selected capitals.
- The rigidity, or not, of the terms currently applied to the six capitals and allowance for the use of varying and different terminology by organisations using the Framework. This would expand on the current wording in paragraphs 2.10, 2.17, 2.18 and 2.19.
- Working with investors to enable them to better understand how to interpret the non-financial information in an integrated report.

We believe greater attention and focus on building an evidence base around multiple capital models, including understanding and articulating the trade off's between capitals and practical considerations, is essential. As such we would welcome the provision of further examples, through the Integrated Reporting examples database, that would give further clarity on the practical application of multi-capital reporting – perhaps by industry given materiality considerations related to capitals. We would further welcome more examples of how to articulate connectivity between risk and capitals and between strategy and capitals (also see below under Question 2).

We further suggest consideration is given to the rise of the concept of 'pre-financial' and how organisations are adapting measurement and reporting such that non-financial capitals feed into financial capitals. This is critical if the integrated report is for the investor.

Lastly a number of users of integrated reports do not like the term 'the capitals'. Although the Framework states (see paragraph 2.17) that there is no requirement for an integrated report to adopt the six categories, it may increase the understanding of integrated reports if the capitals were described in an alternative way, possibly as 'resources and relationships' – the term used in the FRC's Guidance on the Strategic Report, in the UK.

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

DTTL believes that connectivity is one of the least well understood areas of the Framework – consistent across preparers and users. Connectivity is more than just inserting cross references and links into reports. Our understanding, of the Framework, is that within an integrated report the user would expect to see an organisation demonstrating clear linkage between risks and opportunities, strategy and business model, strategy and objectives, KPIs and targets, the review of the business and any material impacts that could affect the performance of the business and its ability to create value over the short, medium and long term. A holistic report, demonstrating clear connectivity, is not frequently found.

Key to achieving connectivity is integrated thinking. Initially the focus, from the IIRC, was on integrated reporting, playing down the integrated thinking element of the Framework. At the heart of integrated reporting is integrated thinking but it's lost in the definition such that users may not necessarily understand that it's at the core. Once an organisation has this an integrated report, with the integrated thinking coming through, is more authentic and valuable to users. For many organisations, in particular those just starting out with the Framework, the integrated thinking element does not come through strongly, perhaps as many organisations struggle to obtain the cross business engagement required to achieve it.

Whilst integrated reporting has taken off many of the organisations calling their reports integrated have not conquered integrated thinking. An integrated reporting journey without integrated thinking risks creating reputational damage to IR and the IIRC. The IIRC should be sensitive to any potential damage to their brand / reputation arising from this.

There is a lack of clarity around how to measure and demonstrate performance and connectivity between/among capitals (a key legal barrier for US companies) and between financial and non-/pre-financial information in general. It is difficult for companies to explain, for example, the social and relationship capital (including contribution to society) in financial terms i.e. how it turns to financials over long-term (see also question 1). In the US we note that this is a major issue in driving attention around the value of integrated reporting.

Within the UK corporate reporting environment, the requirement for the production of a strategic report has altered the corporate reporting landscape for UK companies, whether listed or unlisted. In view of these statutory requirements for a Strategic Report in the UK linkage and connectivity should exist, including linkage to audited financial statements. These requirements and principles have been in place now for a number of years and are well understood. However organisations still struggle. Leading organisations understand that linkage, within the report, needs to reflect the integrated thinking within the organisation and not be just cosmetic i.e. the presentation of the report.

We note the role of technology and how this is changing how organisations report and how users consume information. The emergence of multiple access points risks creating confusion in the market as to what the primary reporting mechanism is and what is audited and not audited.

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

We suggest that the IIRC review the Framework re-emphasising and elevating the importance of integrated thinking. Integrated thinking is currently addressed in the Framework in the 'About integrated reporting' section and 'Connectivity of information' (section 3B). It would be helpful if there was a separate section on integrated thinking within the Guiding Principles section of the Framework that more fully addresses the importance and role of integrated thinking, and how this relates to the connectivity of information, management information and decision making, and value creation. We recognise that this is an area the IIRC is already focussing on however we believe that integrated thinking needs to come through as a fundamental principle of the Framework, rather than just part of the definition of integrated reporting.

However elevating integrated thinking within the Framework isn't, alone, going to drive increased levels of integrated thinking. Further guidance and support is needed to enable this. We suggest that IIRC seeks to work with other organisations active in this space, for example The Prince's Accounting for Sustainability Project (A4S), who already provide guidance and support to organisations on implementation of integrated thinking.

We would caution against the setting out or articulation of any 'rules' as to what should connect to what as this may result in the production a less authentic and more 'check box' report.

Provision of further examples, through the Integrated Reporting examples database, could be an approach to illustrate this further.

A more coordinated approach to measuring non-financial performance is needed. We believe the CRD has a critical role to play in bringing together standard setters in promoting broader principles, concepts, measures that effectively demonstrate connectivity, dependency among/between capitals as well as promoting greater practical application of the Framework and highlighting opportunities for improvement.

Of note, the IIRC may be aware of the feedback statement produced in April 2017 by Accountancy Europe (previously FEE) on their Cogito paper on The Future of Corporate Reporting. This document includes interesting feedback on the value relevance of financial reporting to users, the need for interconnected financial and non-financial information as well as the acknowledgement of the impact of technology on corporate reporting. Accountancy Europe also calls for the coordination of the different initiatives relating to non-financial reporting to ultimately result in a single global principle-based non-financial reporting framework, which takes the interconnectivity with financial information into account. In its initial Cogito paper, Accountancy Europe proposed a CORE (overarching report) & MORE (reports, which include more detailed information) concept for corporate reporting. In its feedback statement, it reported that "integrated reporting is consistent with the CORE & MORE concept" and that "integrated reporting is probably the most developed and promising initiative in trying to improve the interconnectivity of various strands of reporting". It concluded that there is a need for "more clarity around, and fine-tune, the CORE & MORE concept and how integrated reporting and CORE & MORE relate to each other". We see this initiative from Accountancy Europe as a positive element of research in the field of corporate reporting that the IIRC may also wish to consider and assess for its own future developments.

**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?**

In developing the Framework the IIRC debated at length and concluded, we believe rightly, that the integrated report is for the investors but that broader non-financial issues should be factored into the value creation process and reported on in this capacity (see paragraph 1.7).

We also note that there is a clear difference between considering multiple stakeholders in terms of determining strategy and in determining reporting needs. Whilst the former of these is a critical part of managing the business it should not automatically flow through to reporting to all stakeholders.

It is our experience that the majority of preparers of integrated reports recognise their primary audience as providers of financial capital, as per the Framework. However a number of reporters are adding content to meet the needs of a broader group of stakeholders. Within the European Union the EU Non-Financial Reporting Regulations (EU NFR Directive, 2014/95/UE) is raising various questions on who reports are for. Whilst it is recognised that multiple stakeholder groups may have an interest in organisations and varying information needs we believe that the needs of these multiple stakeholders should not undermine or override the needs of capital markets. They should aim to run in parallel.

Considering stakeholder input into activities, e.g. determining strategy, we note that many organisations report on elements of their engagement with stakeholders, in particular on sustainability issues, but do not make explicit how the insight gained from such engagement provides input into development of the business strategy or decisions taken.

Considering reporting, it is our observation that some integrated reports start moving outside the investor focus boundary to content that is immaterial to the investor, but may be of interest to a wider group of stakeholders. This can be a challenge for preparers that follow pure sustainability frameworks e.g. GRI. Reports might discuss materiality matrices etc. but only for sustainability issues – not the annual report as a whole (see response to question 4 regarding materiality). We note that we do see some reporting which is very strong in this area i.e. fully discloses stakeholders and individual topics of interest with connection to chapters/information in the report and other reports which are much weaker i.e. no explicit connection between stakeholders and topics.

A further challenge, highlighted by research into integrated reporting by Deloitte in the Netherlands, Integrated Reporting moving towards maturity, is that main stream investors are not really able to interpret the non-financial information in an integrated report as they lack knowledge (to translate the non-financial information into financial information) and comparability between reports is limited.

Linking strongly to the topic of materiality (see question 4) we note that a key barrier to transparency is a lack of clarity around an expanded interpretation of materiality, what materiality in an integrated reporting context means, and the materiality determination process. This really comes down to business judgment, and it's not clear. This was flagged as of particular resonance in the US but is applicable more broadly.

With regards to stakeholder engagement, in the UK we note that Section 172 of the Companies Act (2006), which focuses on long term thinking and consideration of wider stakeholders by company directors, makes it a statutory requirement for directors to consider the needs of wider stakeholders. How directors have discharged their duties in this respect is not always reported on and the Financial Reporting Council (FRC) is revisiting the requirements in this area. Furthermore within the UK there is a clear regulatory focus on investors / provider of capital focus so integrated reporting has fitted naturally into the reporting landscape. This may, in part, have supported the uptake of integrated reporting in the UK and resulted in stakeholder engagement being covered in the majority of reports.

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

We support the Framework's current position on integrated reporting's primary purpose, as noted above. We suggest, however, that the stakeholder engagement process is an important element and we recommend reworking the Framework to provide additional clarity on what this may look like (similar to S172 of the Companies Act in the UK).

We suggest that guidance should be provided by the IIRC, and supported by examples, in relation the following matters:

- Providing clarity around materiality in the context of integrated reporting and the role that stakeholder's legitimate needs play in the organisation.

Lastly the IIRC will need to stay abreast of developments in the European Union with EU Non-Financial Reporting Regulations (EU NFR Directive, 2014/95/UE) and how this may impact the application of the Framework with regards to stakeholder engagement.

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**PAGE 5: Materiality and value creation**

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**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?**

Firstly we note the intrinsic link between materiality, covered in this question, stakeholder engagement, covered in question 3, and conciseness, covered in question 5.

Financial reporting has an established concept of materiality which is well understood, however there is a common lack of understanding as to what materiality means when applied to integrated reporting (as per paragraphs 3.18-3.29). It is common practice for organisations that have established sustainability reporting processes to use the Global Reporting Initiative (GRI) framework on materiality. This is likely to differ to the materiality process adopted in preparing the financial statements. Using different materiality definitions does not make sense, when the reporting is aimed at a single-perspective audience (investors) as there should be one materiality threshold for the integrated report (which usually comprises the audited financial materiality threshold in our experience) and applying that materiality involves assessing the likelihood that including or excluding information, or changing how it is presented, will affect the decisions being made by the primary users of the report.

The Framework definition of materiality is based on 'material to the Board' rather than 'material to investors'. Stakeholder engagement processes determines what goes to the Board. The Board concentrates on shareholder wealth maximisation, addressing the needs of multiple stakeholders and the prospects of the company. We agree that this is all about integrated thinking and don't disagree with the approach taken by the IIRC. What is material for the investor and so should be included in the integrated report would be, we believe, a subset of these matters. Integrated reporting, and the Framework, could therefore play a role in assisting management to be able to describe and recognise their businesses in their external reporting

Applying materiality in the <IR> context (by focusing on the ability to create value over the long-term), an organisation is able to filter the issues raised by different stakeholders and determine what is really material to the organisation to achieve its strategic objectives. However, when it comes to reporting, in practice many don't manage to apply materiality through an investor lens and focus reporting on a range of issues (often sustainability focussed) that are material to a group of broader stakeholders (not investors/providers of financial capital) and are not clearly linked to value creation.

We note that preparers of integrated reports tend to use just one timeframe for the identification of material matters. However the reality is that issues may be material in different timeframes, for examples climate change impacts may not impact an organisation now or in the near future but may have material long term impacts.

The International Accounting Standards Board's (IASB's) Disclosure Initiative which has brought together securities regulators, auditors, investors and preparers to explore opportunities to see how those applying IFRSs can improve and simplify disclosures within existing disclosure requirements and/or by enhancing standards. One area of focus within this work is the definition and application of materiality. Although this work focuses primarily on the financial statements, we consider the principles can be extended to non-IFRS information. If the IIRC has not already seen it we refer to Deloitte's paper Thinking Allowed – Materiality aimed at those responsible for preparing, or approving for release, a general purpose financial report need to make judgements about what information to include in the report and how to present it. In that paper we describe a framework for materiality assessments that is consistent with the IASB definition but can be generalised to different types of information and to different types of user.

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

It is unhelpful to have different definitions/understandings of what materiality means. We suggest that the IIRC provides additional guidance to users of the Framework regarding the definition of materiality and how this is the same/different to the definition understood by finance professionals and sustainability professionals (and those who interpret their work) around the world. We recommend that the IIRC co-ordinates with others working in this space, including but not limited to IASB, IAASB, CRD etc.).

Furthermore guidance should be provided by the IIRC, and supported by examples, in relation to the following matters:

- Making clear that materiality determination is about a systematic, disciplined, intentional process contemplating the needs of multiple stakeholders.
- Providing examples of both the disclosure and the processes used by organisations.
- That the definition of 'materiality' includes information about matters that substantively affect the organisation's ability to create value over the short, medium and long term. It would be helpful if the IIRC provided further guidance of what is meant by 'short', 'medium' and 'long' term (which could vary substantially across different organisations).
- Greater explanation could be provided as to why providing information about value creation over these different time periods provides useful insights.
- Providing clarity and examples on use of different time periods for the identification of material matters. This may include a link to scenario planning and strategy/risk management as part of the materiality determination process for longer term issues.

We note that even with all the resources and research on materiality, the concept remains hard to apply and lacks clarity. The misconception that plugging GRI, or SASB disclosures alongside historical financial reporting will generate a meaningful integrated report needs to be addressed through education, guidance and clear examples.

**PAGE 6: Conciseness****Q15: Q5(a) What is your experience with the conciseness of integrated reports?**

The length of integrated reports varies significantly. Although some of this variability reflects the size and complexity of different organisations, some integrated reports contain more information than is necessary in order to understand strategy, governance, performance and prospects. For reporting organisations it can be challenging to balance conciseness with substantive and meaningful disclosure i.e. presenting information which has not been refined to the point where the key messages are lost. The focus on the length of the report as opposed to true conciseness has been a common approach, perhaps incorrectly.

Regulatory emphasis, particularly in the UK, is on 'clear and concise' reporting. So not necessarily focusing on length of the report, but on providing information that is relevant to the investor. Important information should not be obscured by less relevant information. This is a position supported by DTTL and is in line with the Framework's position of not 'being burdened with less relevant information' (see paragraph 3.37). It is our experience that organisations prioritise completeness over conciseness. A key link to producing a concise integrated report is heeding the principle of connectivity and a strong application of the materiality process, rather than adopting a checklist mentality (see question 4). This is noted in the Framework (see paragraph 3.38).

A recent study by Deloitte in the Netherlands, Integrated Reporting moving towards maturity, noted a gradual improvement in the conciseness of integrated reports. The study notes that organisations tend to report more on material topics thereby creating greater focus while linking to additional information on websites to further support conciseness. Conversely in the UK Deloitte's research into annual reports, Annual report insights 2016, notes a trend towards increasing length with reports longer, on average, in 2016 by eight pages compared to 2015. The research notes that better information does not necessarily mean more information, a view supported by the Financial Reporting Council (FRC) which has continues to emphasise the value of clear and concise reporting.

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

We suggest that the IIRC revisit the Framework guiding principle of 'Conciseness' (see 3E) and consider the inclusion of the term 'clear' i.e. to be 'Clear and concise'. This would bring the guiding principle in line with Financial Reporting Council's clear and concise initiative.

Additionally guidance should be provided on the application of materiality to support both the relevance and conciseness of reporting and how this focus might benefit the reporting organisation.

The provision of further examples could be an approach to illustrate this further. I.e. examples of reports that have been able to be more concise by strong application of the concept of materiality or direct signposting to additional information elsewhere (e.g. online).

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**PAGE 7: Business model – outputs and outcomes**

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

Current business model reporting is of a mixed standard. In the UK the business model is required as part of the strategic report. Sometimes we see organisations merely describing what the company does rather than going that bit further to explain how value is created. Others seek to follow with Framework's 'Value Creation model' (see Figure 2 in the Framework) which in some cases results in boilerplate business models which follow the Framework's example value creation model too closely. Resulting in communication of an unauthentic story. Business model development and articulation should not be a theoretical exercise.

For many organisations, especially those at the early stages of Framework adoption, there is a tendency to view the business model as explanation of how revenue is generated rather than more holistically as a value creation system. This may, in part, contribute to the practice we see (which is consistent globally) of focusing on inputs and outputs without considering or communicating outcomes. We note that preparers of integrated reports frequently confuse, or fail to distinguish between, 'outputs', 'outcomes' and 'impacts'.

Additionally depending on the nature and complexity of the organisation we see different interpretations of the Framework, in relation to business model, and varying presentations. Organisations with simple business models generally find articulation is relatively easy. Large conglomerates struggle. Sometimes a group or divisional view of the business model, or inclusion of more than one business model might be more relevant, particularly where the group is primarily a holding/investment company. Furthermore many organisations operating in a multinational environment or as conglomerate businesses may have more than one business model. For these organisations trying to portray their business model in one diagram may not enable them to clearly and accurately reflect how they are creating value. We recognise this is addressed within the Framework (see paragraph 4.21 and 4.22) however it remains an area of challenge.

In the UK the FRC's Financial Reporting Lab published research on how organisations are coping with business model reporting. This might be a useful document for the IIRC to refer to if it has not already.

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

We suggest that the IIRC review the Framework to provide clarification in the following areas:

- What is being sought in terms of the description of the business, how it creates value and how the strategy sits around this (see paragraphs 4.16 – 4.17);
- Explain what is meant by outcomes and impacts more clearly, and how they differ to outputs (see paragraphs 4.18-4.20)
- How to identify and report effectively on the impact of the inputs, business activities and outputs on the capitals, including (where material) on capitals that are not owned or controlled by the organisation.
- Make clear that the 'octopus' diagram in the Framework (see Figure 2) is a tool to help organisations to think through their value creation process, not a proforma, fill in the gaps, business model diagram.

In addition to clarification points within the Framework, noted above, we would suggest that the IIRC provides additional examples of business model reporting. This should include examples of where key outcomes and impacts have been identified and reported effectively within the context of value creation and examples for different company structures and industries.

For those starting out on their integrated reporting journey, or even those already on it, additional guidance or support could be provided, possibly through webinars or briefings on articulating their business model. This could include, but is not limited to:

- How to articulate a business model which is specific to the organisation and does not just seek to replicate the example provided within the Framework
  - Encouraging reporting organisations to consider what it is that investors/providers of financial capital really want to know
  - What are the key things that make the organisation investable (although note this is not an investment proposition document)?
  - How does the organisation execute its strategy?
  - The need to review and evolve the business model overtime as the business changes.
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**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?**

Integrated reporting is about corporate governance because it's about integrated thinking and how the business is run. Therefore it is hard for those charged with governance not to be involved given that culture, control environment etc are relevant. Under current practice and due to the voluntary nature of the Framework, many reporters do not feel it necessary to include such statements from those charged with governance - only a limited number of organisations that produce an integrated report include a statement that addresses all the matters set out in paragraph 1.20 of the Framework. Unless the Framework is mandatory, there shouldn't be concern about this, unless there evidence to indicate that such a statement is likely to add to the credibility and perceived reliability of the information in an integrated report.

There are concerns relating to adding to the risks of those charged with governance. A view echoed at the March 2017 IIRC US focus group, where the experiences shared noted that requiring a company's Board of Directors to sign off on an integrated report in order to be in accordance with the Framework is too high of a bar. Preparers present at the focus group noted that it is easier for a Board to understand ESG given the focus and attention by NACD, Ceres, CII, ICGN, but integrated reporting remains challenging for US company Boards at this time.

In the UK there is a developed Corporate Governance regime which requires those charged with governance to report on how they have discharged their responsibilities in relation to the annual report. As discussed above, in the UK an integrated report would essentially be the annual report so it will be clear that those charged with governance have been involved. However we note a similar experience to other geographies in that a statement of 'accordance' with the Framework is not frequently found. As colleagues in the Netherlands note we believe it is very important that the highest governance body is involved, whereas which framework is used to report on integrated information is perhaps less important. If companies for example use the EU directive or GRI Standards to disclose this information we also think this is valuable but would not necessarily expect to see statements of accordance with the framework unless, as in the case of GRI, it was an explicit requirement of use.

In South Africa, where market conditions and reporting requirements are very different to the other countries, we note that almost all reports provide a statement by the Board on the integrity of the report. However not all reports currently make reference to the Framework or provide a statement on presentation in accordance with the Framework.

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

We do not see it as an issue if an organisation does not state whether they have followed the Framework. Taking on board some of the ideas and implementing integrated thinking is the main goal. To say that a report is in accordance with the Framework may suggest that there is possibly no further room for improvement or that they have reached the end of their <IR> journey. Organisations should not have to rush to state this.

The link between corporate governance and integrated thinking needs to be made clearer in the Framework.

We believe that it is important for the Board to be heavily involved in the process and own the output (i.e. the integrated report). An authentic integrated report should mirror discussions in the Board room, in particular around risks and opportunities. A company cannot, we believe, be applying the Framework, both in letter and in spirit, if integrated thinking is not evident at Board level.

The IIRC should consider a way to promote the role of market drivers in enforcing corporate accountability vs. a requirement in the Framework for the Board to sign off on the report (with full responsibility) as a condition of in accordance with the Framework.

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

Considering each of the guiding principles noted separately:

(i) Strategic focus and future orientation: The standard of reporting on an organisation's strategy is generally very good, but reporting on how this relates to the organisation's use of and effects on the capitals generally has scope for improvement. Commercial sensitivities, tendency towards short-termism and lack of protection over forward looking statements are barriers here. We note some better practice examples such as Sanford Limited (New Zealand).

(ii) Reliability and completeness: There is a tendency in many integrated reports to focus on the positive matters and not adequately address negative matters in a balanced way. However, there are some notable exceptions to this generalisation. It is often very difficult to judge whether a material matter has not been included in an integrated report. We note research from 2015 stating that 84% of an organisation's market value is in intangible assets (Ocean Tomo Market Value Study 2015), compared with 17% in 1975 and 68% in 1995. Thus information in the annual report pertinent to understanding of the business is in the front end data, not solely the financial statements.

Reliability and completeness are affected by the lack of assurance obtained on these reports (see also response to question 10), information reported is not always of investor grade. Frequently non-financial data may not be prepared in a robust manner and/or have assurance whilst some financial data may not be extracted from the audited financial statements and therefore also not considered reliable.

Furthermore we note that reliability is not solely about the numbers/data. Both preparers and users want to be confident that the reporting is credible and that is it not just a façade. They want someone (usually someone independent) to look at the building blocks behind it.

Lastly where reporters focus on the provision of supplementary reports, for additional information (as per paragraph 3.38), this may raise the question, from users, of whether these supplementary reports undergo the same level of oversight as the main report.

(iii) Consistency and comparability: Information in integrated reports is not always presented on a basis that is consistent over time or in a way that enables comparison with other organisations. Many organisations we work with would acknowledge they don't have consistent year-on-year definitions of key management information and struggle to get this consistently from their subsidiaries. In part this is because many organisations have only been preparing integrated reports for two or three years, and are changing and refining the matters upon which they report. Ultimately this is about the immature control environment that organisations have in these broader areas.

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

As a firm we are concerned that many users of broad (front half) information in the annual report may inappropriately assume credibility and trust in such information by believing that the financial statement auditor will have considered such information in the financial statement audit in a fashion beyond that required by ISA 720 (Revised). We are further concerned that such a misunderstanding about this broad information will suppress demand for external assurance on the information. As noted above, information for all stakeholder groups must be of investor grade - the intended audience should not affect the perceived acceptable quality of information.

We believe that there needs to be consistency of definitions, consistency of measures, consistency of data quality, clear assurance expectations and quality of control environment expectations for key metrics (both financial and non-financial). This would support consistency, comparability, reliability and completeness of reporting. We suggested that the IIRC should work with the CRD and other relevant bodies (including IAASB, regulatory community, SASB) to address this. We suggest that the IIRC looks to set out expectations around consistency and quality of key non-financial data.

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

Considering each of the content elements noted separately:

- (i) Organisational overview and external environment: Generally an organisation's mission and vision are well described, but the areas where further insight could be provided are culture, ethics and values (but this is improving), the competitive landscape and significant factors affecting the external environment (but reporting on this by regulated industries is generally good). In the UK strategic reports, and in other countries, this information is frequently located within the Chairman/CEO statement and business model sections of the integrated report.
- (ii) Governance: Reporting on how the organisation's governance structure supports its ability to create value in the short, medium and long term is often limited to providing information about the organisation's leadership structure, including the skills and diversity of those charged with governance. An explicit description of how the governance structure in place enables or supports value creation in the short, medium and long term is not frequently seen.
- (iii) Risk and opportunities: This content element is addressed quite differently in different geographies, with a range of experiences of risk reporting but a generally consistent view that the standard of reporting on risks is generally good (and improving) whilst the standard of reporting on the specific opportunities that affect the organisation's ability to create value over the short, medium and long term is often very limited. In most geographies we note that risk reporting is relatively mature and well developed, primarily as a consequence of the reporting regimes within which organisations are operating. For example, in the UK companies need to make a statement about their long term viability and provide enhanced risk disclosure. In Japan we note that few companies explain the risk mitigation measures (see paragraph 4.25). They may focus on consistency between the Annual Securities Report, which requires to disclose about risks, and the integrated report and tend not to include additional risk information in the integrated report. Concerns over commercial sensitivities and over reporting/disclosure remain factors challenging the inclusion of opportunity reporting. There remains room for improvement in reporting on opportunities.
- (iv) Strategy and resource allocation: Strategy is generally well explained. However, there is scope to improve the disclosure of the objectives (as these are often not identified across the short, medium and long term), the resource allocation plans, and how achievements and target outcomes will be measured. Disclosure on resource allocation was noted to be a weaker area in a number of geographies including but not limited to the UK, Japan and the Netherlands.
- (v) Performance: A reflective element of performance reporting, be it qualitative or quantitative, is included within all reports we are aware of. Where quantitative metrics are provided there may be some management commentary on performance. Performance disclosure is reasonably well reported at the metric level (e.g. EHS, customer satisfaction, employee data) however this frequently is not related back to a performance against the strategic goals, thereby raising the question as to the materiality of the metrics selected and their significance to the business. In the UK an integrated report is the annual report, which includes the audited financial statements and commentary thereon.
- (vi) Outlook: Much as with future orientation (see question 8) and opportunity reporting and resource allocation (see above in question 9) this is frequently an area of poorer reporting. Challenges and uncertainties are generally well described, but the potential implications for the business model are often not addressed. Commercial sensitivity is the most commonly referenced driver of limited disclosure in this area.
- (vii) Basis of preparation: The explanation of the organisation's materiality determination process is often brief, but generally this is improving. However, there is often no description of the reporting boundary, and reference to the significant frameworks and methods to quantify or evaluate material matters is sketchy.

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

We suggest the IIRC develops additional guidance, and examples, on how to identify and effectively report areas of particular challenge, for example linking governance to value creation, opportunity reporting, resource allocation and outlook. The IIRC could consider running specific session (e.g. webinars, Q&A sessions etc) on these topics.

The Framework does not acknowledge the relationship between an integrated report and the audited financial statements. The IIRC should consider this issue in order to develop the Framework. In many jurisdictions the integrated report is the annual report, which includes the audited financial statements. For example, in the UK the strategic report and financial statements are deliberately connected.

As previously indicated a recent study by Deloitte in the Netherlands, Integrated Reporting moving towards maturity, which outlines (on pages 20-22) elements for improvement with integrated reporting drawing attention to a some of these areas including strategy and resource allocation, performance and outlook.

Additionally we suggested that IIRC look to other frameworks, for example COSO-ERM or ISO31000 for help in structuring the risk and opportunities section (section 4D)



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**PAGE 11: Other quality issues**

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

The quality of an integrated report, or annual report, tends to depend on the regulatory and cultural environment within which the reporting organisation is operating. It is driven by and related to geographical location and maturity of the reporting environment. The quality of integrated reports currently varies greatly, with some reports being excellent, and others that are described as integrated reports falling considerably short of meeting the requirements of the Framework. However we do note an improvement year on year in quality.

Where a reporting organisation is following other reporting frameworks, possibly alongside the integrated reporting Framework, the output is likely to look and feel different. In the UK publicly listed companies produce a strategic report (as required by law) and they are generally of a good quality due to the maturity of the regime. The FRC's Corporate Reporting Review report <https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Annual-Review-of-Corporate-Reporting-2015-16.pdf> noted that the introduction of the strategic report has improved the quality of narrative reporting.

Where an organisation has more freedom to select how they report, for example a private company, and selects to produce an integrated report it is likely that the reader will see a closer adherence to the Framework. However we note that in reading some such reports they can feel somewhat 'forced' or 'tick box' against the Framework. Additionally we note that some organisations may be seeking to meet the criteria for reporting awards rather than Framework for preparing an integrated report. Some organisation's publishers/design offices confuse the Framework concepts, including the definitions of integrated reporting and integrated report with the preparation of an integrated report becoming the purpose rather than pursuing integrated thinking.

We note that within some integrated reports there is not sufficient discussion and analysis on financial information. The Framework does not provide sufficient guidance on how the audited financial statements can and should interact with the integrated report.

We believe that assurance has a key role to play with regards to the quality of integrated reports. This includes both driving an improvement in quality whilst also strengthening credibility. There is currently some misconception in market (from both report preparers and investors) over current review on front end and the level of 'assurance work' done by the statutory auditor. We note, however, that assurance should not be a 'check' against the Framework – as that would just look at the output i.e. the report. Any assurance work undertaken needs to look at what sits behind it. We recognise the work undertaken to date by the IIRC, the IAASB and others and refer here to DTTL's previous response to the IIRC on assurance (submitted in December 2014) and our more recent response to the IAASB on extended forms of external reporting (submitted in March 2017).

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

Using its networks and communication channels (e.g. publications, seminars, workshops etc.) we recommend that the IIRC continues to publicise the areas where there remains the greatest scope for improving the quality of the integrated report.

As previously noted we suggest that the Framework is reviewed to provide clarity on how the audited financial statements should interact with the integrated reports.

As noted above, assurance is a key consideration in expanded corporate disclosure for many organisations and has a key role to play in driving an improvement in quality. Clarity is needed, for both preparers and users, around what assurance means in this expanded reporting context, the value of assurance to management and users of the report, how assurance influences investors and other stakeholder's interpretation and valuation of company performance. We suggest the IIRC continues its own work around assurance as well as continued engagement with others including standard setters (e.g. IAASB), providers of assurance, preparers and users.

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**PAGE 12: Other enablers, incentive and barriers**

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**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?**

When conceived, integrated reporting was envisaged as being a supplementary report. Following three years of Framework adoption we observe that, in many jurisdictions, the integrated report is becoming the main narrative or annual report. However we note that this is a challenge to multi-jurisdictional reporting and, in some areas, a regulatory challenge.

Investors and providers of financial capital, as the primary user for the integrated report, have shown limited interest in the role of integrated reporting. We observe that progress has been made however this remains limited to pockets of investors in some geographies. We note, for example, the explicit investor's questions and requests for non-financial information at shareholder meetings.

Many organisations see adoption of integrated reporting, and integrated thinking, as a journey but struggle with where to start. Which should come first the reporting or the thinking? (see response to question 2). What level of resources are required and what might the 'cost' of transitioning be? This is particularly relevant to smaller organisations where resources may be more constrained. Furthermore lack of awareness, by those charged with governance, of the benefits of adopting integrated reporting and integrated thinking may act to discourage adoption.

Where jurisdictions have different forms of mandatory reporting the challenge for preparers is how to introduce integrated reporting. For example where there is a requirement to report non-GAAP measures how does this work with integrated reporting and regulatory reports. Might an organisation end up reporting the same information twice? The market evidence shows that the integrated report will not always be a separate report, as originally envisioned by the Framework.

In the US lack of regulator and investor focus is serving as a disincentive to corporate adoption, along with a lack of clarity about what integrated reporting really means.

In the Netherlands the Dutch government has initiated the "Transparantiebenchmark", see (<https://www.transparantiebenchmark.nl/en>) where companies annual reports are rated against set criteria that are, in many aspects, similar to the Framework. Companies are looking to score highly in this ranking as the results and individual scores are disclosed publicly with the best scoring companies receiving positive publicity. Therefore in this market we see an increased effort by companies directed towards implementing and disclosing as many of the criteria as possible in a complete, reliable and timely manner. Furthermore we see in the Netherlands that following the EU non-financial reporting directive, parties such as VBDO and Eumedion are requesting non-financial information on shareholders meetings.

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

One option to drive adoption might be regulation. However we believe that if regulators were to mandate integrated reporting it may push reporting organisations to focus on IR as a compliance exercise, rather than on effective communication, thereby serving as an obstacle to true/full adoption. We caution that a regulatory requirement, to adopt the Framework at this point in time may not achieve the right outcome as it may result in 'tick box' reporting rather than true integrated reporting supported by integrated thinking. Furthermore there is a challenge as to whether the Framework, as it is currently, is mature enough to be regulated. Further fieldwork would likely to be needed to test the principles. Real change, in adoption, is most likely to be driven by a regulator focus on the core principles, for example a focus on long term value creation, addressing broader stakeholder needs, the quality of non-financial data, and the consistency of determination of performance indicators/metrics.

We would suggest that the IIRC works closely with the relevant bodies including regulators, monitoring boards, the CRD, stock exchanges, governments and other supervisory institutions to engage on these elements and promote the concept of long term value creation and the enablers for this.

We suggest that the IIRC reviews the Framework to reflect market experiences that the integrated report will not always be a separate report. This should include giving consideration for prescribed filings, non GAAP measures, safe harbours for forwards looking information and other regulatory barriers.

We suggest that the IIRC continues:

- To work directly with investors and providers of financial capital and also provides support to organisations that have already adopted or are on their adoption journey to engage with their investors
- To work closely, with a view to highlighting important linkages, alignments, perspectives and methodologies, with sustainability reporting organizations (such as GRI, SASB etc) or with organisations focused on carbon disclosure (such as CDP, CDSB etc) and to track progress of the TCFD and their work.
- To monitor the research work pursued by Accountancy Europe on the CORE & MORE concept to assess whether there is any element that may be of interest to the IIRC's developments (refer to our comment at Q2b).

We would suggest that the IIRC makes clearer, for those charged with governance, the benefits of adopting integrated reporting and integrated thinking. The use of examples, from those who have already adopted, would support this in being more than a theoretical exercise.

To support take up by small organisations we suggest that the IIRC seek to understand the barriers, real and perceived, to entry. They could then look to provide support on how to adopt the Framework and provide resources and examples to help break down and overcome these barriers. This could also be relevant to larger organisations in some markets – we therefore suggest that the IIRC considers a broader programme to understand the barriers and address these via education, engagement etc.

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