

# International <IR> Framework

## Consultation Draft

Closing date for comments is 15 July 2013

**INPUT OF PROFESSIONAL DESIGNERS IS BEING SOUGHT**



## ABOUT THE IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about businesses' value creation should be the next step in the evolution of corporate reporting.

Further information about the IIRC can be found on its website [www.theiirc.org](http://www.theiirc.org), including:

- The background to the IIRC's creation
- Its structure and membership, and the membership of groups who have contributed to the development of this Consultation Draft
- Its mission, vision and objectives
- The IIRC's due process.

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WORKING DRAFT ONLY

## REQUEST FOR COMMENTS

The purpose of this Consultation Draft is to obtain comment on the Proposed International <IR> Framework (Proposed Framework) at page 6 in accordance with the IIRC's Due Process.

The IIRC welcomes comments on all aspects of the Proposed Framework from all stakeholders, whether to express agreement or to recommend changes.

A series of Consultation Questions has been included at page 3. Your answers to these questions, and any other comments you would like to make, will be important to the IIRC in reviewing the Proposed Framework. The Proposed Framework may be modified in light of the comments received before being issued. The IIRC plans to issue the initial version of the Framework in December 2013 and to update it periodically as Integrated Reporting (<IR>) evolves.

The IIRC will continue to review and update the Framework after it has been issued.

You can register at [www.theiirc.org](http://www.theiirc.org) to be notified when additional information is published.

### Better Reporting for Better Business

This Consultation Draft is being released at the same time as the IIRC publication *Better Reporting for Better Business*. While not part of the Consultation Draft itself, it does provide helpful context for anyone intending to respond to this Consultation Draft. It is available at [URL](#).

### Process for receiving feedback

The IIRC will be accepting comments on the Proposed Framework until 15 July 2013. Comments received after this date may not be considered.

All comments received will be considered a matter of public record and will be posted on [www.theiirc.org](http://www.theiirc.org).

Submissions should be made via the IIRC's website at [www.theiirc.org/consultationdraft](http://www.theiirc.org/consultationdraft) (TBC). It will help the IIRC considerably if all comments are referenced to either the Consultation Questions or specific paragraphs in the Proposed Framework.

It is the strong preference of the IIRC to receive responses in the specified format (TBC). However, if feedback is provided in a different form, an editable version must be submitted to enable collation and analysis of comments.

### Emerging <IR> database [*Should this section be included?*]

The IIRC acknowledges that <IR> is currently in a formative stage and plans to continuously review and update the Framework as further practical experience is gained. An important reference point for that experience will be the database of emerging practice at [examples.theiirc.org](http://examples.theiirc.org). While the database does not provide definitive guidance, anyone intending to respond to this Consultation Draft is encouraged to consider the practices in the database when preparing their comments.

## BETTER REPORTING FOR BETTER BUSINESS

[Include in full, or extracts from, the communications document being developed to accompany the Consultation Draft]

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### CONSULTATION QUESTIONS

**NOTE TO WORKING GROUP: THE PRELIMINARY LIST OF QUESTIONS THAT FOLLOW HAS NOT BEEN FULLY CONSIDERED BY THE TECHNICAL TASK FORCE.**

**AS NOTED IN THE COVER MEMO, THE WORKING GROUP WILL BE ASKED TO CONSIDER DURING THE MEETING WHETHER THESE ARE THE RIGHT QUESTION TO ASK (IN TERMS OF (I) CONTENT, (II) TONE, AND (III) STRUCTURE) AND WHETHER THERE ARE ANY IMPORTANT QUESTIONS MISSING.**

**There are two types of question in the list that follows. One asks respondents to rate their reaction to aspects of the Proposed Framework. The purpose of these ratings is to give the IIRC an overall impression of respondents' reactions to the Proposed Framework. Please use the following scale:**

**4 = Yes/fully**

**3 = I have minor reservations**

**2 = I have major reservations**

**1 = No/not at all**

**0 = Not applicable/don't know**

**The second type of question asks for comments on specific matters.**

**For both types of questions:**

**(a) Relate your comments to specific text in the Proposed Framework wherever possible**

**(b) Explain your reasons.**

#### **Chapter 1 - Overview**

1.1: Please rate the extent to which you think the definitions of <IR> and an integrated report in paragraph 1.2 are appropriate.

1.2: Please rate the extent to which you think the identification, in paragraph 1.4, of providers of financial capital as the primary intended users of integrated reports is appropriate.

1.3: Please rate the extent to which you think the requirements regarding application of the Framework in paragraphs 1.14-1.15 are appropriate.

1.4: Do you have any comments on other aspects of Chapter 1?

### Chapter 3 – Guiding Principles

2.1: Please rate the extent to which you think the content of Section 2A – Introduction to fundamental concepts is appropriate (paragraphs 2.1-2.11).

2.2: Please rate the extent to which you think the role of the capitals model as described in paragraph 2.18-2.20 is appropriate?

2.3: Do you have any comments on other aspects of Section 2B – The capitals?

*An alternative way to structure this and similar sections would be:*

- *Please rate the extent to which you think the content of Section 2B is appropriate?*
- *Do you have any comments on role of the capitals model as described in paragraph 2.18-2.20?*
- *Do you have any comments on other aspects of Section 2B – The capitals?*

2.4: Please rate the extent to which you think the definition of the business model in paragraph 2.24, in particular, the inclusion of outcomes as part of the business model is appropriate.

2.5: Do you have any comments on other aspects of Section 2C – The business model?

2.6: Please rate the extent to which you think the summary of value creation in paragraphs 2.34 is appropriate.

2.6: Please rate the extent to which you agree that <IR> should take “account of the extent to which costs or other effects on various capitals have been externalized (i.e., the costs or other effects on capitals that are not owned by the organization, such as the environment, employees, the local community and future generations)” (paragraph 2.43).

2.7: Please rate the extent to which you think the examples of value drivers listed in paragraph 2.44 are appropriate. (If different from the examples given, what are the value drivers used to manage your business?)

2.8: Do you have any comments on other aspects of Section 2D –Value creation?

### Chapter 3 – Guiding Principles

3.1: Please rate the extent to which you think the content of Section 3A – Strategic focus and future orientation is appropriate.

3.2: Please rate the extent to which you think the content of Section 3B – Connectivity of information is appropriate.

3.3: Do you have any specific comments on the components of connectivity identified in paragraphs 3.10-3.11, or other aspects of Section 3B?

3.4: Please rate the extent to which you think the content of Section 3C – Stakeholder responsiveness is appropriate.

3.5: Please rate the extent to which you think the content of Section 3D – Materiality and conciseness is appropriate.

3.6: Do you have any specific comments about:

(a) the definition of materiality in paragraph 3.23?

(b) the process to identify material matters?

(c) the requirement to disclose the organization’s materiality determination process in its integrated report (paragraph 3.37)?

(d) the importance of conciseness (paragraph 3.38)?

3.7: Please rate the extent to which you think the content of Section 3E – Reliability is appropriate.

3.8: Please rate the extent to which you think the content of Section 3F – Comparability and consistency is appropriate.

3.9: Do you have any specific comments about the extent to which the Proposed Framework, including paragraph 3.60, strikes an appropriate balance between the need for flexibility (so each organization can tell its unique value creation story) and the need for comparability between different organizations' integrated reports?

3.10: Please rate the extent to which you think the Guiding Principles collectively are appropriate and complete.

3.11: Do you have any comments on other aspects of Chapter 3 – Guiding Principles?

#### **Chapter 4 – Content Elements**

4.1: Please rate the extent to which you think the explanation in paragraphs 4.2-4.5 of how the Content Elements should be used is appropriate.

4.2: Please rate the extent to which you think the content of Section 4A – Governance is appropriate.

4.3: Please rate the extent to which you think the content of Section 4B – Business model is appropriate.

4.2: Please rate the extent to which you think the content of Section 4C – Organizational overview and operating context is appropriate.

4.4: Please rate the extent to which you think the content of Section 4D – Opportunities and risks is appropriate.

4.5: Please rate the extent to which you think the content of Section 4E – Strategy and resource allocation is appropriate.

4.6: Please rate the extent to which you think the content of Section 4F – Performance is appropriate.

4.7: Please rate the extent to which you think the content of Section 4G – Future outlook is appropriate.

4.8: Please rate the extent to which you think the Content Elements collectively are appropriate and complete?

4.9: Do you have any comments on other aspects of Chapter 4 – Content Elements?

#### **Chapter 5 – Preparation and Presentation**

5.1: Please rate the extent to which you think the content of Section 5A – Disclosure of material matters and the materiality determination process is appropriate.

5.2: Please rate the extent to which you think the content of Section 5B – Frequency of reporting is appropriate.

5.1: Please rate the extent to which you think the content of Section 5C – Time frames for short, medium and long term is appropriate.

5.3: Please rate the extent to which you think the content of Section 5D – Reporting boundary is appropriate.

5.4: Do you have any specific comments about the extent to which the Proposed

Framework, should require the integrated report to include matters (including outcomes) beyond the control of the organization?

5.5: Please rate the extent to which you think the content of Section 5E – Aggregation and disaggregation is appropriate.

5.1: Please rate the extent to which you think the content of Section 5F – Involvement of those charged with governance is appropriate.

5.6: Please rate the extent to which you think the content of Section 5G – Use of technology is appropriate.

5.7: Please rate the extent to which you think the content of Section 5H – Assurance is appropriate.

5.8: Are there any other topics you think should be included in Chapter 5?

5.9: Do you have any comments on other aspects of Chapter 5 – Preparation and Presentation?

### **Other**

6.1: (a) FOR PREPARERS: Recognizing that <IR> will evolve over time, please rate the extent to which you think the principles-based approach adopted is sufficient for you to prepare an integrated report that is in accordance with the Framework.

(b) FOR PROVIDERS OF FINANCIAL CAPITAL: Recognizing that <IR> will evolve over time, please rate the extent to which you think the information called for by the Proposed Framework will help you make assessments.

(c) FOR OTHER STAKEHOLDERS: Recognizing that <IR> will evolve over time, please rate the extent to which the Proposed Framework will meet your needs.

6.2: Do you have any comments about the practicality of implementation of the Framework by smaller listed companies).

6.3: If the IIRC were to work on additional guidance/explanations to accompany the initial edition of the Framework, what three topics would you identify as the highest priorities?

6.4: Please rate the extent to which you think organizations in your country(ies) could prepare an integrated report in accordance with the Proposed Framework given current statutory or regulatory requirements in that country(ies).

6.5: Do you have any other comment on the Proposed Framework?

# PROPOSED INTERNATIONAL <IR> FRAMEWORK

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# 1. OVERVIEW

- 1.1 This chapter provides an overview of Integrated Reporting (<IR>) and of the International <IR> Framework (the Framework). Further background, including Frequently Asked Questions, is available on the IIRC website at [www.theiirc.org](http://www.theiirc.org).

## Integrated Reporting <IR>

- 1.2 ***<IR> is a process that results in communication, most visibly a periodic "integrated report", about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. An integrated report should be prepared in accordance with this Framework.***

## Objectives of <IR>

- 1.3 <IR> aims to:
- Catalyse a more cohesive and efficient approach to corporate reporting that draws together other reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
  - Inform the allocation of financial capital that supports long term, as well as short and medium term, value creation
  - Enhance accountability and stewardship with respect to the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of the interdependencies between them
  - Promote integrated thinking, decision-making and actions that focus on the creation of value in the long term, as well as short and medium term.

## Audience for <IR>

- 1.4 While the communications that result from <IR> will be of benefit to a range of stakeholders, they are principally aimed at providers of financial capital in order to support their financial capital allocation assessments. ***Providers of financial capital are therefore the intended users of integrated reports.*** Those providers of financial capital who take a long term view of an organization's performance are particularly likely to benefit from <IR>. The interests of such providers are likely to be aligned with the public interest in that both are focused on the creation of value in the long term, as well as the short and medium term. Activities and strategies that are overly focused on optimizing short term financial performance on the other hand, can impede the ability of organizations and providers of financial capital to make long term investments. These include investments in research aimed at long term innovation and in the infrastructure needed to address mounting global challenges, such as resource shortages as planetary limits are approached, economic instability, climate change, and changing demographics and societal expectations.

## Objective of the Framework

- 1.5 The purpose of the Framework is to assist organizations with the process of <IR>. In particular, the Framework establishes Guiding Principles and Content Elements that govern the overall content of an integrated report, helping

organizations determine how best to express their unique value creation story in a meaningful and transparent way. The Framework does not, however, set benchmarks for such things as the quality of an organization's strategy or the level of its performance. Assessing these things is the role of the intended report users based on the information in an organization's integrated report.

## **About the Framework**

1.6 The Framework sets out:

- Fundamental concepts that underpin <IR>
- Guiding Principles that inform the content of an integrated report and how information is presented
- Content Elements to be included in an integrated report
- Additional considerations in the preparation and presentation of an integrated report.

### *Fundamental concepts*

1.7 The fundamental concepts underpinning <IR>, which are discussed in Chapter 2, revolve around:

- The various capitals that an organization uses and affects
- The organization's business model
- The creation of value over time.

1.8 These concepts and the reporting requirements and guidance in Chapters 3–5 are mutually reinforcing. An organization's business model is the vehicle through which it creates value. That value is embodied in the capitals that it uses and affects. The assessment of an organization's ability to create value in the short, medium and long term depends on an understanding of the connectivity between its business model and a wide range of internal and external factors. Those factors are disclosed in an integrated report prepared in accordance with the Framework.

### *Guiding Principles*

1.9 The Guiding Principles, which are explained in Chapter 3, are:

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder responsiveness
- Materiality and conciseness
- Reliability
- Comparability and consistency.

### *Content Elements*

1.10 The Content Elements are explained in Chapter 4. They are expressed in the form of questions that are answered in the integrated report in a way that best expresses the organization's unique value creation story and makes their interconnections apparent, rather than appearing as isolated, standalone sections:

- Governance
- Business model
- Organizational overview and operating context
- Opportunities and risks
- Strategy and resource allocation
- Performance
- Future outlook.

#### *Preparation and presentation*

- 1.11 The guidance on preparation and presentation of an integrated report in Chapter 5 includes such topics as disclosure of material matters and the materiality determination process, frequency of reporting, reporting boundary, involvement of those charged with governance, use of technology, and assurance.

#### **A Principles-based approach**

- 1.12 The Framework takes a principles-based approach and does not focus on rules for measurement or disclosure of individual matters or the identification of specific key performance indicators (KPIs). This requires that senior management and those charged with governance collectively exercise judgement to determine which matters are material, and to ensure they are appropriately disclosed given the specific circumstances of the organization, including the application of generally accepted measurement and disclosure methods as appropriate (see paragraph 1.18). The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations but enables a sufficient degree of comparability across organizations to meet relevant information needs.

#### **Application of the Framework**

- 1.13 The Framework is intended primarily for application by private sector, for-profit companies of any size but can also be applied, adapted as necessary, by public sector and not-for-profit organizations. It can be applied regardless of local legal requirements (see the following paragraphs) or reporting practices, and does not include any jurisdiction-specific guidance.
- 1.14 ***Any communication purporting to be prepared in accordance with the Framework should apply all the requirements identified in bold italic type (taking account of the content of the Framework as a whole and any other guidance issued by the IIRC) unless and to the extent the unavailability of reliable data or specific legal prohibitions results in an inability to disclose information that is material.***
- 1.15 ***Where the unavailability of reliable data or specific legal prohibitions result in an inability to disclose information that is material, the integrated report should:***
- ***Indicate what information has been omitted***
  - ***Explain the reason why the information has been omitted***
  - ***In the case of the unavailability of data, identify the steps being taken to obtain the data and the expected time frame for doing so.***

## **<IR> in practice**

### *Integrated thinking*

1.16 <IR> is guided by the Framework and by integrated thinking.

1.17 Integrated thinking is the ability of an organization to understand the relationships between its various operating and functional units and the capitals the organization uses and affects. Integrated thinking leads to integrated decision-making and actions that focus on the creation of long term, as well as short and medium term, value. Integrated thinking can be contrasted with what is sometimes known as “silo thinking”, in that it takes into account the connectivity and interdependencies between the full range of factors that have a material effect on an organization’s ability to create value over time, including (but not limited to):

- The capitals the organization uses and affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization’s governance structure to assess resilience against short term disruptions and respond to stakeholders’ legitimate needs, interests and expectations so as to secure long term returns
- How the organization tailors its business model and strategy to respond to the opportunities and risks it faces as well as major changes in its external context
- Other organizational value drivers, activities, results (financial and other), and outcomes in terms of the capitals – past, present and future.

### *Interaction with other forms of reporting*

1.18 <IR> builds on developments in financial and other reporting to catalyse an evolution in corporate reporting. An integrated report communicates the factors most important to the creation of value in the short, medium and long term. Organizations will provide additional detailed disclosures, such as financial statements and sustainability reports, for compliance purposes and to satisfy particular information needs, including those of stakeholders other than providers of financial capital. These other disclosures may be linked to or referenced in an integrated report.

1.19 The Framework does not prescribe specific indicators or measurement methods to be used in an integrated report. Rather, the IIRC aims to complement material developed by established reporting standard setters and others, such as industry bodies, and does not intend to develop duplicate content. Nonetheless, in order to promote consistency and rigor, the Framework and any other guidance issued by the IIRC may reference examples of indicators and measurement methods developed by others (see for example, the references cited in the footnote to paragraph 4.28).

## 2. FUNDAMENTAL CONCEPTS

### 2A Introduction

- 2.1 <IR> recognizes that value is not created by or within any one organization alone, but is:
- Influenced by external factors (such as economic conditions, technological change, societal issues and environmental challenges), which create the context within which the organization operates
  - Co-created through relationships with others (including employees, partners, networks, suppliers and customers)
  - Dependent on the availability, affordability, quality and management of various resources.
- 2.2 <IR> therefore aims to provide insights about the following (as depicted in Figure 1):
- The external factors that affect an organization (see paragraph 4.18-4.19)
  - The resources and relationships used and affected by the organization, which are referred to in this Framework as "capitals", comprising: financial, manufactured, intellectual, human, social and relationship, and natural capitals (see paragraphs 2.12-2.23)
  - How the organization interacts with external factors and the capitals to create value over the short, medium and long term (see paragraphs 2.4-2.11).

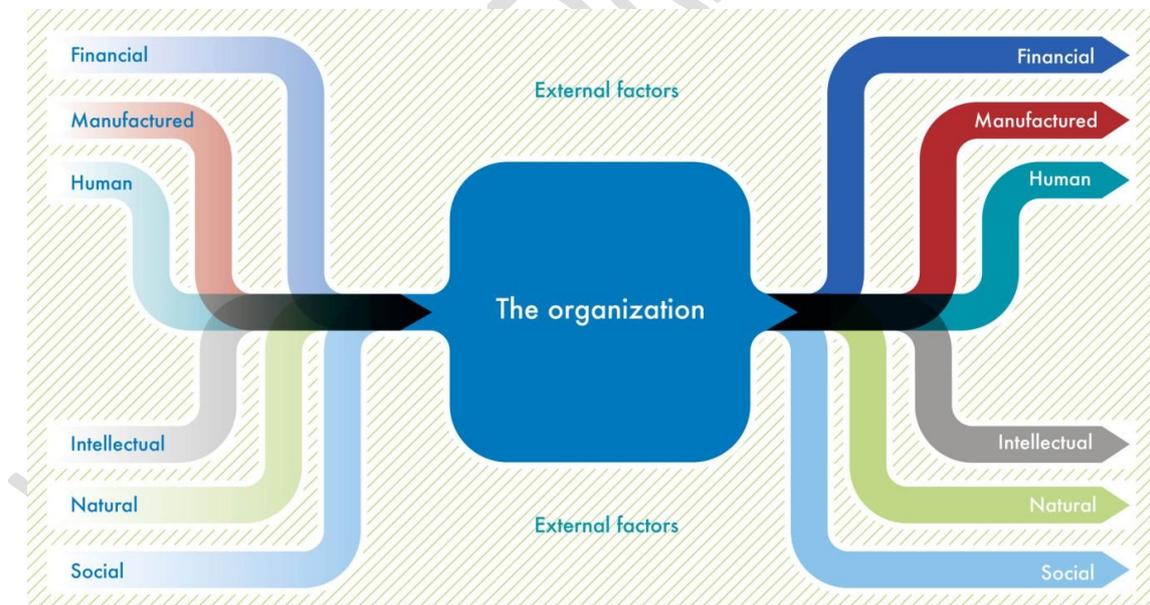


Figure 1: <IR> provides insights about external factors, the capitals used and affected by the organization, and how the organization interacts with external factors and the capitals to create value over the short, medium and long term

- 2.3 By describing, and measuring where it is practicable, the material components of value creation and, importantly, the relationships between them, an integrated report results in a broader explanation of performance than traditional reporting. In particular, it makes visible all the relevant capitals on which value creation (past, present and future) depends, how the organization uses those capitals, and

its effects on them.

### The organization

- 2.4 For the purpose of this Framework, the components of an organization that interact with external factors and the capitals to create value over time can be depicted as illustrated in Figure 2. These components are aligned with the Content Elements of an integrated report (see Chapter 4).

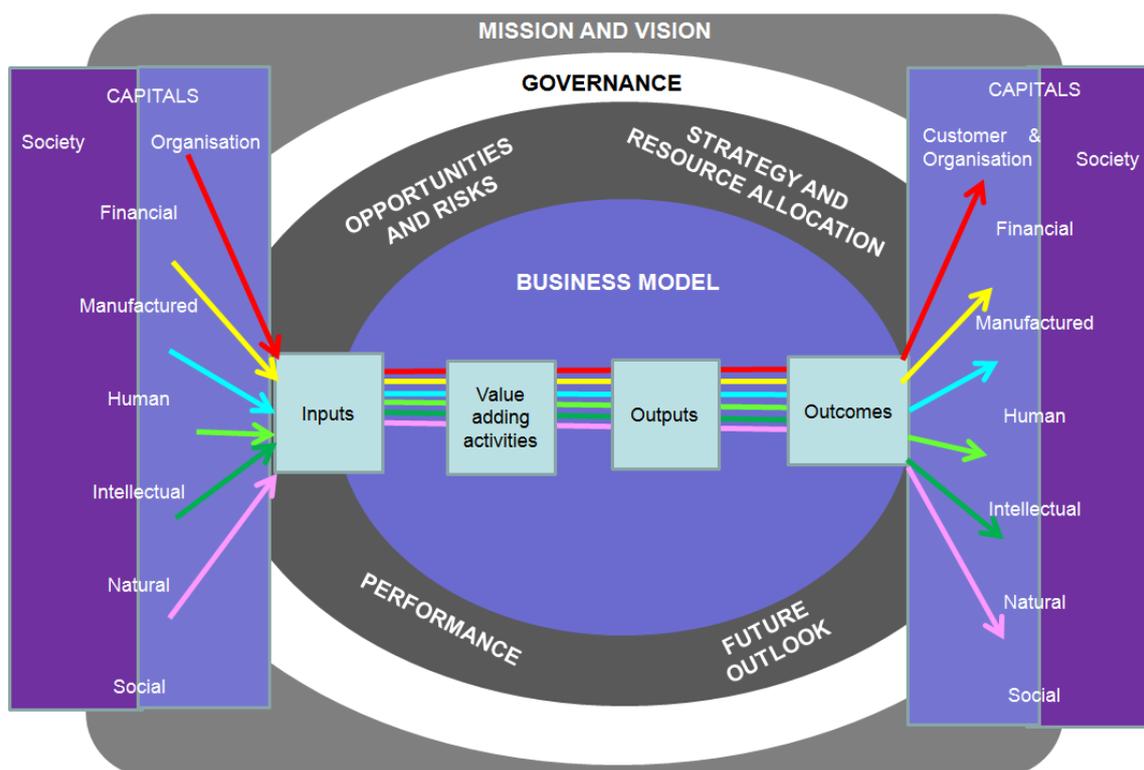


Figure 2: The components of an organization that interact with external factors and the capitals to create value over time

- 2.5 Encompassing the whole organization are its mission and vision, which set out the organization's purpose in clear, concise terms.
- 2.6 Those charged with governance are responsible for creating appropriate oversight structures, within which the various organizational components are in dynamic flux, each interacting with the others at regular intervals.
- 2.7 Continuous monitoring and careful analysis of external factors in the context of the organization's mission and vision identifies the key opportunities and risks relevant to the organization.
- 2.8 The organization's strategy identifies how it intends to maximise opportunities and mitigate or manage risks. It sets out long term strategic objectives and strategies to achieve them. Shorter term resource allocation plans drive implementation of the strategy.
- 2.9 At the heart of the organization is its business model, which draws upon various capitals in one form or another as inputs and, through value-adding activities converts them to outputs (products, services, by-products and waste). Both the organization's value-adding activities and its outputs lead to outcomes in terms of effects on the capitals. Some of the capitals the organization uses and affects

belong to the organization and some belong to stakeholders more broadly (identified as “society” in Figure 2).

- 2.10 The organization needs information about its performance, which involves measurement and monitoring systems to provide information for decision-making.
- 2.11 The system is not static, regular review of each component and its interactions with the other components in the context of the organization’s future outlook leads to revision and refinement to improve all components.

## **2B The capitals**

### *The stock and flow of capitals*

- 2.12 All organizations depend on a variety of different forms of “capital”<sup>1</sup> for their success. In this Framework, the capitals comprise: financial, manufactured, intellectual, human, social and relationship, and natural capitals, although as discussed below, this categorization is not required to be adopted by all organizations preparing an integrated report. These capitals are stores of value that, in one form or another, become the inputs to an organization’s business model. They are increased, decreased or transformed through activities of the organization, in that they are enhanced, consumed, used up, modified or otherwise affected by those activities. For example, an organization’s financial capital is increased when it makes a profit, and its human capital is increased when employees become better trained.
- 2.13 The total stock of capitals is not fixed over time. There is a constant flow between and within the capitals as they are increased, decreased or transformed. To demonstrate using the example above where human capital is increased when employees become better trained, the training is likely to have come at a cost to the employer organization. In this case, therefore, the immediate effect is to both increase the organization’s human capital and decrease its financial capital. In effect, from the organization’s point of view, financial capital has been transformed into human capital. Such increases, decreases and transformations are happening constantly. Ordinarily, an organization expects that the cumulative result of these flows will be added value accruing to the organization (contributed to, in this case through increased efficiency/effectiveness of the trained employees offsetting, over time, the immediate decrease in financial capital). Although this example is relatively simple and has been described only from the organization’s point of view,<sup>2</sup> it demonstrates that the capitals are interrelated and constantly in a state of flow and transformation.
- 2.14 Many activities cause flows and transformations that are far more complex than the above example, and involve a broader mix of capitals (and very often a mix of components within a capital). Some activities can cause a net increase to the overall stock of capitals, and some can cause a net decrease.<sup>3</sup> In many cases, it depends on whose perspective is taken whether an activity has caused an

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<sup>1</sup> The capitals are sometimes also referred to as “resources and relationships”.

<sup>2</sup> Other relevant points of view include the increase to the trainer’s financial capital due to the payment received from the employer, and the increase to social capital that may occur if employees use newly acquired skills in community organizations.

<sup>3</sup> In this Framework, unless otherwise stated, the term value creation includes instances when the overall stock of capitals is decreased, i.e., when value is effectively destroyed or depleted.

increase or a decrease, as different parties will value the same effect on a capital differently (such as in the example above, the employer and the employees' perception of the value of training is likely to differ). The perspective on value that is relevant to <IR> is discussed in Section 2D.

#### *Availability, quality and affordability of capitals*

2.15 The extent to which organizations, collectively or individually, are building up or running down the various capitals can have an important effect on the availability, quality and affordability of those capitals, particularly with respect to capitals that are in limited supply and non-renewable. This can affect the long term viability of an organization's business model and, therefore, its ability to create value over time.

#### *Categorization and description of capitals*

2.16 For the purpose of this Framework, the various capitals are categorized and described as follows:

- (a) Financial capital – The pool of funds that is:
  - available to an organization for use in the production of goods or the provision of services
  - obtained through financing, such as debt, equity or grants, or generated through operations or investments.
  
- (b) Manufactured capital – Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:
  - buildings
  - equipment
  - infrastructure (such as roads, ports, bridges and waste and water treatment plants).

Manufactured capital is often created by one or more other organizations, but also includes assets manufactured by the reporting organization when they are retained for its own use.
  
- (c) Intellectual capital – Organizational, knowledge-based intangibles, including:
  - intellectual property, such as patents, copyrights, and software, rights and licences
  - "organizational capital" such as tacit knowledge, systems, procedures and protocols
  - intangibles associated with the brand and reputation that an organization has developed.
  
- (d) Human capital – People's competencies, capabilities and experience, and their motivations to innovate, including their:
  - alignment with and support of an organization's governance framework and risk management approach, and ethical values such as its recognition of human rights

- ability to understand, develop and implement an organization's strategy
  - loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.
- (e) Social and relationship capital – The institutions and relationships established within and between each community, group of stakeholders and other networks, and the ability to share information, to enhance individual and collective well-being. Social and relationship capital includes:
- shared norms, and common values and behaviours
  - key relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with customers, suppliers, business partners and other external stakeholders
  - an organization's social licence to operate.
- (f) Natural capital –All renewable and non-renewable environmental stocks that provide goods or services that support the past, current or future prosperity of an organization. An organization's activities affect, positively or negatively, natural capital. It includes:
- water, land, minerals and forests
  - biodiversity and eco-system health.

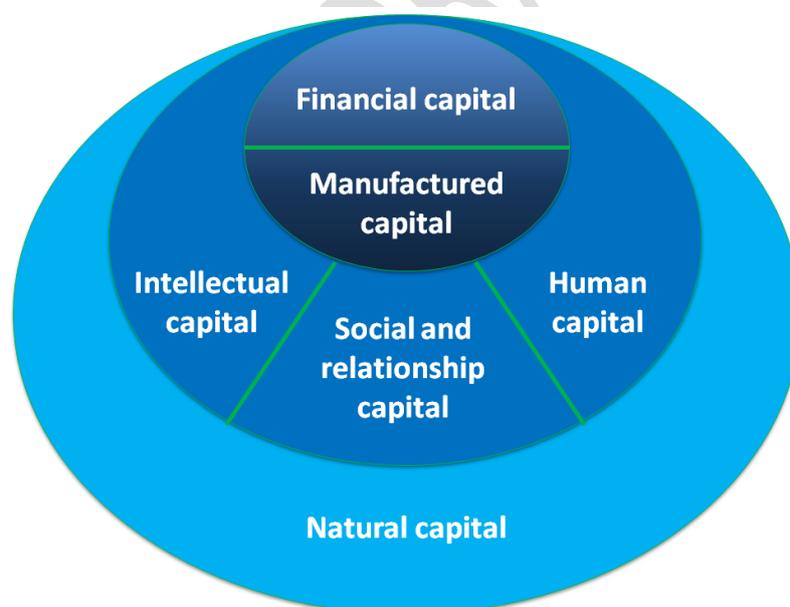


Figure 3: This diagram is one way to depict the capitals. Financial and manufactured capitals are the ones organizations most commonly report on. <IR> takes a broader view by also considering intellectual, social and relationship, and human capitals (all of which are linked to the activities of humans) and natural capital (which provides the environment in which the other capitals sit).

2.17 Not all of these capitals are equally relevant or applicable to all organizations. While it is likely that virtually all organizations have some interactions with all

forms of capital, these interactions may be relatively minor or indirect in many cases and therefore not material for inclusion in an integrated report.

#### *The role of the capitals model in the Framework*

2.18 The Framework does not require that the categorization adopted here also be adopted by all organizations preparing an integrated report. While it is likely that organizations will often find adopting the capitals terminology used here to be an appropriate way to structure or articulate disclosures in their integrated report, the inclusion of the capitals model in the Framework is not intended to serve as a strict model to be reported against. Rather, the primary reasons for including the capitals model in the Framework are for it to serve:

- As part of the theoretical underpinning for the concept of value, as discussed in Section 2D
- As a benchmark for ensuring that organizations, in preparing their integrated reports, consider all the forms of capital that they use and affect.

2.19 It would be impracticable, and indeed unnecessary, for the Framework at this stage to define every possible stock of value exclusively and exhaustively, and in a way that attempts to cover all organizational strategies and business models. The role of an integrated report is to express an organization's unique value creation story, this requires flexibility and should not be unduly bound by definitions of capitals that may not cater appropriately for the organization's particular approach to value creation. For example, relationships with stakeholders, which contribute significantly to the ability of organizations to create value over time, are included in the description of social and relationship capital in paragraph 2.14. Some organizations may, however, think of relationships as a separate capital, as part of human or intellectual capital, or as inherent in, and therefore cutting across and linking, a number of the individual capitals.<sup>4</sup> Similarly, the capacity to innovate (part of human capital in paragraph 2.14) or the intangibles associated with brand and reputation (part of intellectual capital in paragraph 2.14), may be thought of by some organizations as separate capitals, part of other capitals or cutting across a number of the individual capitals.

2.20 ***Regardless of how individual organizations categorize or define the capitals for their own purposes, the point is that all should consider the categories identified above as a benchmark to ensure that they are considering the full, broad range of resources and relationships that they use or affect and have not omitted to report on any that are material.***

#### *Ownership of the capitals*

2.21 Not all capitals that an organization uses or affects are owned by the organization. They may be owned by others, or may not be owned at all in a legal sense (e.g., access to unpolluted air). This point is relevant to the concept of value and is discussed further in Section 2D.

#### *Quantitative and qualitative information*

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<sup>4</sup> Appendix A provides examples of links between the various capitals, the financial reporting entity and other entities/stakeholders to illustrate how the capitals model can be used in conjunction with stakeholder analysis, particularly when determining the reporting boundary.

- 2.22 Quantitative indicators, such as KPIs (see discussion in Section 4F) and in some cases monetization, can be very important in explaining an organization's use of and effects on various capitals. Nonetheless, the Framework does not require, and it would not be practicable to expect, organizations to attempt to quantify all capitals. Many uses of and effects on the capitals are best (and in some cases can only be) reported on in the form of narrative rather than through metrics.

#### *Complexity, interdependencies and trade-offs*

- 2.23 The Framework does not require, and it would not be practicable to expect, that <IR> will be able to explain all the complex interdependencies between all the components of the various capitals that would be necessary to reflect a complete, aggregated picture of an organization's overall effect on the world's stock of all capitals. It is important, however, that the material interdependencies, including trade-offs, that influence value creation over time are either quantified or reported on in narrative form, or both (see paragraph 4.32x).

## **2C The business model**

### *Definition*

- 2.24 ***An organization's business model is its chosen system of inputs, value-adding activities, outputs and outcomes that aims to create value over the short, medium and long term.***

- 2.25 As demonstrated in Figure 2, the business model sits at the hub of an organization and represents the fundamentals of the entity's activities, operating within an overarching organizational architecture.

### *Inputs*

- 2.26 The integrated report identifies key inputs and, to the extent that they are material to understanding the robustness and resilience of the business model, how those inputs relate to the capitals on which the organization depends or that provide a source of differentiation for the organization. The discussion provides a concise, yet meaningful, account of how these key inputs link to risk, strategy or financial performance (e.g., cost base).
- To enhance report users' understanding of its use of financial capital, the organization ordinarily provides an overview of its funding model.
  - In terms of manufactured capital, the organization may explain how facilities, equipment and other infrastructural components lend operational efficiency and effectiveness – in terms of productivity, cost containment, enhanced safety and environmental stewardship.
  - Intellectual capital such as brands, patents, copyrights and proprietary knowledge are often vital components of a robust business model. Many "knowledge" and "organizational" intangibles are often not reflected on an organization's balance sheet and it is important that their capacity to create value is explained.
  - Employees, a key element of human capital, can be an organization's greatest asset, but disclosures often overlook their contribution to long term success. Some business models require not only a dedicated and committed workforce but also a workforce with specialized knowledge or skills.
  - With respect to social and relationship capital, most business models

require a network of relationships to succeed. For some, supply chain management can be one of the most important. Other business models can be predicated on joint technology development albeit with separate downstream exploitation.

- Many organizations have a significant reliance on certain raw materials to ensure continuity of production. It is important to understand how secure the availability, quality and affordability of these components of natural capital are, particularly in light of planetary limits that can render an organization vulnerable to changes that can affect the very basis of its business model. Where the supply of key raw materials is uncertain in the long term, the organization explains what is being done to source suitable alternatives materials or processes. Also, where significant environmental remediation efforts are likely to be involved, this is explained.

2.27 Organizations do not attempt to provide an exhaustive list of all capitals used. Rather, the focus is on those capitals that have a material bearing on an organization's ability to create value in the short, medium and long term, whether or not they are owned or directly controlled by the organization.

#### *Value-adding activities*

- 2.28 What an organization does to transform inputs into valuable outputs is at the heart of the business model. These value-adding activities may include the planning, design and production of products or the deployment of specialized skills and knowledge in the provision of services. In carrying out these and other activities, the business model should factor in such attributes as quality, cost competitiveness and technological advantage.
- 2.29 Attention to process improvement, employee training and relationships management can influence the effectiveness and efficiency of value-adding activities. Where material, an organization discusses the contribution of these initiatives to the long term success of its business model.
- 2.30 A description of value-adding activities also includes how an organization differentiates itself in the market place (this may including a focus on product differentiation, market segmentation, delivery channels and marketing) and the extent to which the business model relies on revenue generation after the initial point of sale (e.g., extended warranty arrangements or network usage charges).
- 2.31 Organizations that fail to evolve with their environment may, in time, find themselves at risk. Encouraging a culture of innovation is a key value-adding activity in terms of, e.g., generating new products and services that anticipate customer demands, introducing efficiencies such as better use of technology, input substitution to minimize adverse social or environmental effects, and finding alternative uses for outputs. Further, the capacity of the business model to adapt to changes (e.g., in the availability, quality and affordability of inputs in response to trends such as resource scarcity) is an important aspect of the ability to add value. The business model description therefore includes an explanation of how the organization approaches the need to innovate and how the business model has been designed to adapt to change.

#### *Outputs*

- 2.32 The integrated report identifies an organization's key products and services. There are, potentially, other outputs, such as waste and other by-products, that may need to be discussed within the business model disclosure depending on their materiality.

## *Outcomes*

- 2.33 The integrated report explains the key effects on the capitals that arise from an organization's value-adding activities and its outputs. Outcomes can be internal to an organization (e.g., profits, cash flow and corporate reputation) or external (e.g., customer satisfaction, employment opportunities, taxes and environmental effects). This ordinarily requires a broader consideration of the capitals than what is currently owned or directly controlled by the organization.

## **2D Value creation**

- 2.34 <IR> explains how an organization creates<sup>5</sup> value over time. Value creation therefore lies at the heart of <IR>. In summary:
- An organization can create and maximize value by serving the interests of and working with all its major stakeholders, including employees, customers, suppliers, creditors, communities and the environment. Value created in this way manifests itself in financial returns to providers of financial capital and also in positive or negative effects on the economy, the environment and society.
  - Value is stored in the capitals. Value is created or destroyed for an organization and its stakeholders as a result of the use of, effects on, and interplay between the capitals caused by the organization's activities.
  - Value for <IR> purposes is determined by reference to a wide range of interactions, activities, relationships, and causes and effects in addition to those directly associated with financial revenue or financial capital accretion.
  - Information that enables assessment of the ability of an organization to create value over time is communicated through a description of the way in which the organization has used and intends to use the different capitals to operate its business model and the effects on and trade-offs between those capitals over different time periods, and the organization's value drivers and the opportunities and risks that affect them. These factors are encapsulated in the Content Elements in Chapter 4.

### *Value for providers of financial capital*

- 2.35 Communications that result from <IR> are aimed principally at providers of financial capital in order to support their financial capital allocation assessments. Those providers of financial capital that take a long term view of an organization's performance are particularly likely to benefit from <IR>. Providers of financial capital are focused on value in the form of financial returns. Those returns are, however, dependent upon inter-relationships between various types of capital in which other stakeholders such as customers, suppliers, employees, legislators and regulators have an interest. Therefore, other stakeholders are also likely to benefit from the information in an integrated report, but their particular information needs will also continue to be served through other forms of communication, including financial statements and sustainability reports.

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<sup>5</sup> Although organizations aim to create value overall, this may involve the destruction or depletion of value stored in some capitals. Whenever value creation is mentioned, this also includes value destruction or depletion.

*Why focus on providers of financial capital, particularly those taking a long term view?*

- 2.36 The public interest and the interests of providers of financial capital that take a long term view of an organization's performance are likely to be aligned in that both are focused on long term, as well as short and medium term value creation. <IR> communicates information that enables providers of financial capital to assess an organization's ability to create value over time. In doing so it supports their decision-making, engagement and voting practices, and the public interest by encouraging the allocation of financial capital to reward and support long term value creation within planetary limits and societal expectations.
- 2.37 All providers of financial capital may play a part in supporting value creation and the public interest. However, activities and strategies that are overly focused on optimizing short term financial performance can impede the ability of organizations and providers of financial capital to make long term investments. These include investments in research aimed at long term innovation and in the infrastructure needed to address mounting global challenges, such as resource shortages as planetary limits are approached, economic instability, climate change, and changing demographics and societal expectations.
- 2.38 The provision of financial capital, particularly when taking a long term view of an organization's performance, is, of course, accompanied by uncertainties that, in turn, demand sophisticated approaches to opportunity and risk assessment based on a wide range of information about financial, operational, reputational, legal, social, environmental and political risk. Hence <IR> requires a wider range of information than has ordinarily been provided through traditional organizational reporting.

*The meaning of value*

- 2.39 Traditionally, the meaning of value for providers of financial capital has been associated with the present value of expected future cash flows and value creation has been understood as the change in that measure of value due to an organization's performance. Although providers of financial capital take other factors into consideration, information about risk and reward, and particularly how it affects future cash flows, is crucial to their understanding of how and the extent to which an organization creates value.
- 2.40 <IR> is based on the understanding that future cash flows and other conceptions of value are dependent on a wider range of capitals, interactions, activities, causes and effects, and relationships than those directly associated with financial revenue or financial capital accretion. Those broader factors have not ordinarily been adequately reflected in traditional organizational reports and therefore have not been adequately reflected in valuation methodologies such as those based on the discounted cash flow model.
- 2.41 Value for <IR> purposes, therefore, encompasses other forms of value that the organization creates or depletes through the use of, effect on or interplay between the capitals, each of which represents a store of value that may ultimately affect the extent to which providers of financial capital may expect financial returns. <IR>, therefore, needs to consider the broader context of the value created or destroyed in all the capitals, including the creation of externalities through the activities of an organization. Moreover, it is not the purpose of an integrated report to measure the value of an organization, but rather to provide information that enables the intended report users to assess the ability of the organization to create value over time.

### *The relationship between the capitals and value*

- 2.42 Value is created or depleted over different time horizons and for different stakeholders through different capitals. Overall, value for providers of financial capital is unlikely to be created through the maximization of one capital while disregarding the others. For example, the maximization of financial capital (e.g., profit) at the expense of the human capital embodied in an organization's employees (e.g., through inappropriate human resource policies and practices) will not likely maximize value in the long term.
- 2.43 <IR> takes account of the extent to which costs or other effects on various capitals have been externalized (i.e., the costs or other effects on capitals that are not owned by the organization, such as the environment, employees, the local community and future generations). Externalities may be positive or negative (i.e., they may result in a net increase or decrease to the value embodied in the capitals). Externalities may ultimately increase or decrease value to providers of financial capital in the long term, and without appropriate disclosure of their effects, those providers will not have the information they require to make assessments about long term value and be able to allocate resources accordingly.

### *Organizational value drivers*

- 2.44 Value drivers are capabilities or variables that give an organization competitive advantage and over which it has some degree of control so as to create value. They may include:
- Financial drivers such as growth in sales or market share, pricing strategy, operational efficiency, brand equity and cost of capital
  - Other drivers such as customer relations, societal expectations, environmental concerns, innovation and corporate governance
  - Values such as integrity, trust and teamwork that support value creation.
- 2.45 Value drivers alone and in combination affect an organization's ability to create value over time. The type and combination of relevant value drivers are unique to each organization and are to be disclosed in the integrated report.

### 3. GUIDING PRINCIPLES

3.1 **The following Guiding Principles should underpin the preparation of an integrated report, informing the content of the report and how information is presented:**

**A Strategic focus and future orientation**

**B Connectivity of information**

**C Stakeholder responsiveness**

**D Materiality and conciseness**

**E Reliability**

**F Comparability and consistency.**

#### 3A Strategic focus and future orientation

3.2 **Guiding Principle 1 – An integrated report should provide insight into the organization’s strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals.**

3.3 Applying this Guiding Principle is not limited to describing the organization’s strategy and future outlook in accordance with Content Elements 5 and 7. It also pervades the selection and presentation of other content, and may include, for example:

- Highlighting significant opportunities, risks and dependencies flowing from the organization’s market position and business model that affect the organization’s ability to create value over time
- An explanation of those charged with governance’s view of:
  - the resilience of the organization’s business model
  - the relationship between past and future performance, and the factors that may change that relationship
  - how the organization balances short, medium and long term interests.

3.4 Adopting a strategic focus and future orientation in an integrated report also involves clearly articulating how the continued availability, quality and affordability of significant capitals contribute to the organization’s ability to achieve its strategic objectives in the future and thereby create value.

3.5 Particular care is needed with respect to the future-oriented information to avoid creating “boilerplate” disclosures. **Information should only be included in the integrated report when it is of practical use to the intended report users in considering the organization’s strategy, governance, performance and prospects.**

3.6 Future-oriented information is, by its nature, more uncertain and, therefore, less precise than historical information. **Uncertainty is not, however, a reason in itself to exclude such information, but it does mean that key estimates and significant assumptions used by management, together with possible risks, should be included so the intended report users can properly assess that information.** (See paragraphs 5.42-5.43 for further guidance.)

### 3B Connectivity of information

3.7 **Guiding Principle 2 – An integrated report should show, as a comprehensive value creation story, the combination, inter-relatedness and dependencies between the components that are material to the organization’s ability to create value over time.**

3.8 Connectivity is central to ensuring that an integrated report:

- Focuses on the total picture of the organization’s unique value creation story (i.e. how its strategy, governance, performance and prospects create value over time)
- Supports the intended report users’ understanding of the different factors that affect the future of the organization (including its possible performance) and how they interact
- Helps to break down established silos in accessing, measuring, managing and disclosing information, and to extend the focus of reporting beyond the traditional focus primarily on financial matters and historical matters
- Facilitates the intended report users’ ability to drill down and interlink information in other communications depending on their needs.

3.9 The more that integrated thinking underlies the organization’s unique value creation story by being embedded into the activities of the organization, the more naturally will the connectivity of information flow into management analysis and decision making, and subsequently into reporting. Accordingly, introducing ways to improve integrated thinking within the organization can help drive the <IR> process. Moreover, because of the mutually reinforcing nature of integrated thinking and <IR>, the more experience an organization gains with the <IR> process the more integrated thinking becomes embedded into its activities.

3.10 **The key components that are relevant to the connectivity of information are the connectivity between:**

- **The Content Elements**, i.e., the connectivity between the organization’s governance, business model, operating context, opportunities and risks, strategy and resource allocation, performance, and future outlook. It is only by connecting the Content Elements that the organization is able to express its unique value creation story. The story integrates the Content Elements into a total picture of value creation and reflects the dynamic and systemic interactions of the organization’s activities as a whole. Examples include:
  - an analysis of existing resource allocation, and how the organization will combine resources or make further investment to achieve targeted performance through its business model
  - information about how the organization’s strategy is tailored when, e.g., new opportunities and risks are identified or past performance is not as expected
  - how the organization’s strategy links to KPIs and KRIs.
- **The past, present, and future.** An analysis by the organization of its activities in the past-to-present dimension can provide the intended report users with significant clues to assess the plausibility of what has been reported compared to what may transpire in the present-to-future dimension. The explanation of the past-to-present may also be

fundamental to analysis by the intended report users of the quality of management and when considering whether or not the organization will achieve targets described in the integrated report.

3.11 **Other relevant components include the connectivity between:**

- **The capitals**, including the trade-off, conversion, enhancement, and depletion of the capitals over time. (See discussion of the capitals in Section 2B.)
- **Financial information and other information**, especially as it relates to future cash flows, such as:
  - research and development policy, technology/know-how, capital investment, and investment in human resources, and their implications for expected revenue growth or targeted market share
  - environmental policies, energy efficiency, cooperation with local communities, or technologies to tackle social issues, and their implications for cost reduction or enlarged business opportunity
  - long term customer relationship, customer satisfaction and reputation, and their implications for revenue or profit growth.
- **Quantitative and qualitative information**. Both qualitative and quantitative information are necessary if an integrated report is to properly represent the organization's value creation story, with each providing context to the other.
- **Management information, board information and information reported externally**. For example, as noted in paragraph 4.33, it is important for quantitative indicators in an integrated report to be consistent with indicators used by those charged with governance.
- **Information in the integrated report, information in the organization's other communications, and information available from other sources**, recognizing both the need for all communications from the organization to be consistent, and that intended users make assessments by combining information the organization provides with other information they have accumulated. In this context, information and communication technology (e.g., the internet, XBRL and social media) can be used to improve the intended report users' capability to search, access, combine, connect, customize or analyse information. (See discussion of technology in Section 5G.)

3.12 The connectivity of information, and indeed the overall usefulness of the integrated report, is enhanced when it is logically structured and well presented, written in straight-forward language, and includes effective navigation devices, such as section summaries, clearly delineated (but linked) sections, and cross-references.

### 3C Stakeholder responsiveness

3.13 **Guiding Principle 3 – An integrated report should provide insight into the quality of the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their legitimate needs, interests and expectations.**

3.14 <IR> emphasizes the importance of ongoing, positive relationships with the

organization's stakeholders because, as noted in paragraph 2.1, value is not created by or within any one organization alone, but is co-created through relationships with others.

- 3.15 Stakeholders provide useful insights about matters that are important to them that also affect the organization, including economic, environmental and social issues. These insights assist the organization to:
- Understand how stakeholders perceive value
  - Identify future trends that may not yet have come to general attention, but which are rising in significance
  - Identify material matters, including opportunities and risks
  - Develop and evaluate strategy
  - Manage risks
  - Implement activities, including strategic and accountable responses to material matters.
- 3.16 An integrated report enhances transparency and accountability, which are essential in building trust and resilience, by disclosing:
- The nature and quality of the organization's relationships with key stakeholders, such as customers, suppliers, employees and local communities
  - How their legitimate needs, interests and expectations are understood, taken into account and responded to.
- 3.17 Responsiveness is demonstrated through decisions, actions and performance, as well as ongoing communication with stakeholders. Making internal processes more transparent is valuable to most stakeholders.
- 3.18 Identification of and engagement with stakeholders<sup>6</sup> occurs regularly in the ordinary course of business (e.g., day-to-day liaison with customers and suppliers or broader ongoing engagement as part of strategic planning). It may also be undertaken for a particular purpose (e.g., engagement with a local community when planning a factory extension). The more integrated thinking is embedded in the business, the more likely it is that a fuller consideration of stakeholder legitimate needs, interests and expectations is incorporated as an ordinary part of conducting business.
- 3.19 The Guiding Principle of Stakeholder Responsiveness does not mean that an integrated report should attempt to satisfy all the information needs of all stakeholders. Rather, by focusing on matters that are most material to long term success, an integrated report will often provide relevant information in itself, as well as a clear reference point for other communications, including compliance information, investor presentations, detailed financial information, sustainability reports, and communications directed to specific stakeholders who have particular information needs. Much of this more detailed information is likely to be placed online.

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<sup>6</sup> For further guidance see, for example: "AA1000 Stakeholder Engagement Standard" (2011), Accountability, at <http://tinyurl.com/cnm9oa5>, and "Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets" (2007), International Finance Corporation, at <http://tinyurl.com/2ao9636>.

- 3.20 As noted above, an integrated report enhances transparency and accountability. Accountability is closely associated with the concept of stewardship which, in the context of <IR>, means the responsibility of an organization to care for or use responsibly the capitals that its actions affect. Where those capitals are owned by the organization, a stewardship responsibility is imposed on management and those charged with governance via their legal responsibilities to the organization.
- 3.21 Some capitals that the organization uses or affects are not owned by it. As discussed in paragraph 2.21, they may be owned by others, or may not be owned at all in a legal sense. In either case, the organization may have stewardship responsibilities imposed upon it through law or regulation (e.g., through a contract with the owners, or through labour laws or environmental protection regulations). Where a stewardship responsibility is not imposed by law or regulation, the organization may nonetheless accept stewardship responsibilities in accordance with growing stakeholder expectations to do so, and to do so transparently. Responding to stakeholders' legitimate needs, interests and expectations in this way is consistent with the concept of value as explained in Section 2D.

### 3D Materiality and conciseness

3.22 ***Guiding Principle 4 – An integrated report should provide concise information that is material to assessing the organization's ability to create value in the short, medium and long term.***

#### Materiality

##### Definition

- 3.23 ***A matter<sup>7</sup> is material if it is of such relevance and importance<sup>8</sup> that it could substantively influence the assessments of the intended report users with regard to the organization's ability to create value over the short, medium and long term. In determining whether or not a matter is material, senior management and those charged with governance should consider whether the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one or more of the capitals it uses or affects.***

#### The materiality determination process

- 3.24 Determining materiality for purposes of preparing an integrated report involves:
- Identifying relevant matters
  - Assessing the importance of those matters
  - Prioritizing the matters identified.
- 3.25 This materiality determination process is illustrated in Figure 4. The process applies to both positive and negative matters (e.g., opportunities and risks, favourable and unfavourable results or prospects for the future), and to financial and other information. Such matters may have direct implications for the organization itself or relate to the organization's effects on the capitals available

<sup>7</sup> A matter or information includes, but is not limited to, an event, issue, opportunity, amount, or statement by the organization.

<sup>8</sup> Importance refers to both nature and magnitude.

to others.

- 3.26 **Materiality assessments should be performed at least annually, however, for the materiality determination process to be applied most effectively, it should ultimately be integrated into the everyday management of the organization as part of a continuous process of review and assessment by senior management and those charged with governance.**

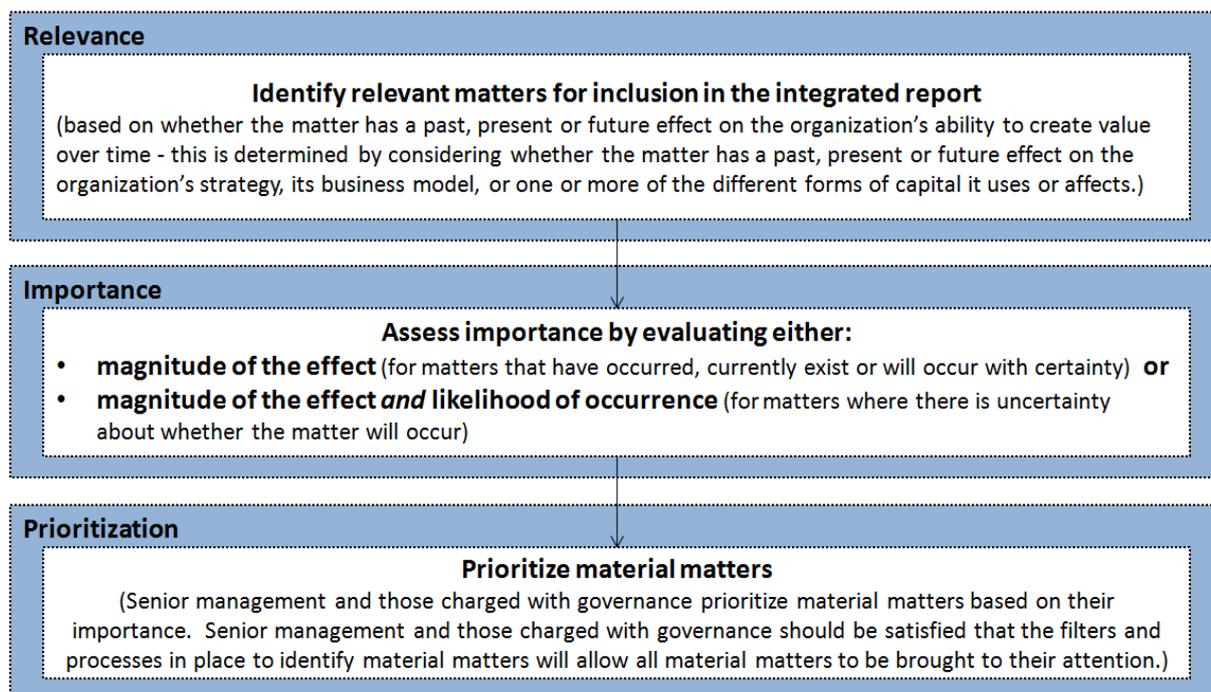


Figure 4: Illustration of the materiality determination process

#### Identifying relevant matters

- 3.27 Relevant matters are those that have a past, present or future effect on the organization's ability to create value over time. This is determined by considering whether the matter has a past, present or future effect on the organization's strategy, its business model, or one or more of the different forms of capital it uses or affects.
- 3.28 As part of the process of identifying relevant matters, it is important that long term matters not be overlooked. Matters that might be relatively easy to address in the short term but which if left unchecked could be increasingly damaging and progressively more difficult to address over time need to be included in the population of relevant matters. **Matters should not be excluded on the basis that the organization does not wish to address them or does not know how to deal with them.**

#### Assessing importance

- 3.29 Not all relevant matters will be considered material; to be included in the integrated report, a matter also need to be sufficiently important in terms of its known or potential effect on value. If the matter is of such importance that it has the potential to substantively influence assessments, it is to be considered material.

*Assessing magnitude of effect*

- 3.30 To determine the importance of matters with no uncertainty of occurrence [i.e., matters that have already occurred or that currently exist (e.g., the organization's culture, management style, internal systems) and matters that will definitely occur in the future (e.g., an enacted law that will become effective at a future date)] only the magnitude of their effect on the organization's ability to create value over time needs to be assessed. An understanding of the perspectives of the broader stakeholder group is critical to this assessment because stakeholder actions have the potential to affect the organization's ability to create value.
- 3.31 Magnitude is assessed by considering whether the matter's effect on the organization's strategy, its business model and the capitals over time is of such significance that it has the potential to substantively influence assessments about the organization's ability to create value over time. This requires judgement and will depend on the nature of the matter in question. Assessing the magnitude of a matter's effect does not imply that the effect needs to be quantified. Depending on the nature of the matter, a qualitative assessment may be more appropriate.
- 3.32 ***In assessing the magnitude of effect, the organization should, at a minimum, consider:***
- ***Quantitative and qualitative factors***
  - ***Financial, operational, strategic, reputational and regulatory perspectives of the effect***
  - ***Area of the effect (internal and external to the organization)***
  - ***Time frame of the effect.***

*Assessing likelihood of occurrence*

- 3.33 Where it is uncertain whether a matter will occur (e.g., a matter that may occur in the future or have potential future effects), both its magnitude (as described above) and the likelihood of occurrence are considered to assess its importance. Figure 5 illustrates how the importance of such matters can be assessed.

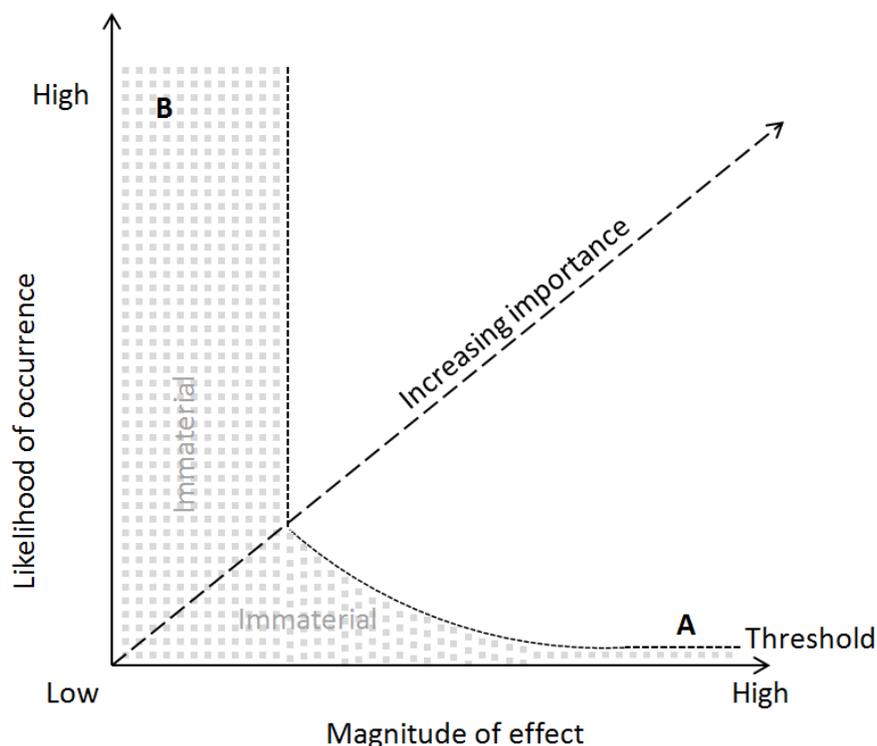


Figure 5: Assessing importance

- 3.34 Matters with a high likelihood of occurrence and a large effect would have a greater degree of influence on assessments than matters with a lower likelihood of occurrence or smaller effect. As illustrated in Figure 5, the importance of a matter with a large effect and a low likelihood of occurrence (point A) is greater than a matter with a high likelihood of occurrence and a small effect (point B), since the former matters, should they occur, could severely effect the organization's ability to create value over time.

#### Prioritizing material matters

- 3.35 **Once the population of material matters is identified, they should be prioritized by senior management and those charged with governance based on their importance to the organization's ability to create value over time.**
- 3.36 Prioritization helps focus on the most important matters in determining how they are reported. If the population of material matters is quite large, prioritization assists in revisiting the materiality threshold and assessing importance to determine whether it may be appropriate to narrow the population further.

#### Disclosure

- 3.37 Material matters require disclosure. The nature and extent of disclosure in the integrated report will be influenced by the nature of the matter and application of all the Guiding Principles. **In addition to the disclosure of material matters, the organization's materiality determination process should be disclosed in the integrated report.** Disclosing the materiality determination process enables the intended report users to understand how decisions to include or exclude various matters were made and thereby make an informed assessment of

the methodology used.

#### Conciseness

- 3.38 ***The integrated report should include concise information that provides sufficient context to make it understandable, and should avoid information that is redundant. Material information should not be excluded; however, additional detailed information can be provided separately on the organization's website or in other forms of communication, with links provided to such information.*** In preparing an integrated report, the organization seeks a balance between complete, concise and comparable information.

### 3E. Reliability

3.39 ***Guiding Principle 5 – The information in an integrated report should be reliable.***

- 3.40 The reliability of information is affected by its completeness, neutrality and freedom from error. It is recognized that it is not always possible for all information in an integrated report to be complete, neutral and free from error in every respect, so the objective is to maximize these qualities to the extent practicable (e.g., by ensuring that any negative matters are as faithfully reported as positive ones). Reliability is enhanced by mechanisms such as robust stakeholder engagement, which can help establish the completeness and neutrality of information in particular, and independent, external assurance.
- 3.41 Senior management and those charged with governance exercise judgement in deciding whether information is sufficiently reliable to be included in the integrated report. It may be appropriate in some cases (e.g., with respect to future-oriented information) for the integrated report to describe the mechanisms employed to ensure the reliability of information. (See paragraph 1.15 for relevant disclosures when material information is omitted because of the unavailability of reliable data.)

#### Completeness

- 3.42 ***A complete integrated report should include all material information, both positive and negative. To help ensure that the organization has identified and disclosed all material matters, consideration should be given to what organizations in the same industry are reporting on.*** Certain matters within a particular industry are likely to be material to other organizations within the same industry.
- 3.43 In determining the completeness of the integrated report, the organization balances potential concerns regarding costs, competitive advantage and future-oriented information (each of which is discussed below) with the benefits of being able to express, in its own terms, its unique value creation story. While the following are sometimes cited as reasons for excluding material information, in each case there are considerations that still allow organizations to provide information that achieves the objective of an integrated report.

#### Cost/benefit

- 3.44 It is appropriate for the organization to evaluate the cost of reporting versus the benefits (to both the organization and to the intended users of the integrated report) associated with reporting in determining the extent, level of specificity,

and preciseness of information to include in an integrated report, but not to refrain entirely from making disclosures on the basis of cost.

- 3.45 Costs to the organization (both time and expense) may arise from the need to establish or strengthen information systems and controls for capturing and aggregating information or making estimates. Until such systems are implemented, it may be impracticable for certain information to be included – or included to the optimum extent, level of specificity, or preciseness. As systems are implemented, the extent, level of specificity, or preciseness may increase. Often, information may be available, but just in a different form, which may help to manage additional costs.
- 3.46 If material information is not included in the integrated report, the intended report users may incur costs in obtaining information through other sources or may make sub-optimal decisions as a result of not having that information. This is to be weighed against the costs to the organization of reporting such information.
- 3.47 Information included in an integrated report is, by nature, central to running the business. Accordingly, if management is making decisions on information that is less than reliable because of the lack of systems to capture and aggregate the information, the greater cost may be from the inability to make sound decisions. As a result, analyzing the sufficiency of existing systems in conjunction with preparing an integrated report may shed more light on areas in which better systems are needed for managing the business, and not just for reporting purposes.

#### Competitive advantage

- 3.48 One perceived constraint is the potential for loss of competitive advantage through the disclosure of commercially sensitive information. It is not expected that the organization discloses information in an integrated report that would significantly harm its competitive advantage, and the banner of commercial sensitivity is not to be used inappropriately to avoid disclosure. If material information is not disclosed because of perceived competitive harm, this fact and the reasons for it are to be noted in the integrated report.
- 3.49 Many corporations already hold analyst calls in which they discuss strategic objectives and strategies. Similar to those calls, the organization considers how to describe the essence of the strategies that are critical to the organization without identifying specific information that might cause a loss in competitive advantage.
- 3.50 For example, it is often the case that information about strategies is already known to the market, and therefore available to competitors, and that the true competitive advantage in such cases lies in how those strategies are executed (e.g., the efficiency and effectiveness of the processes and practices used) rather than in the strategies themselves.
- 3.51 Accordingly, the organization considers what actions a competitor could actually take with information in an integrated report and how it would affect the organization in considering whether such information would truly harm competitive advantage, and balances this against the legitimate information needs of the intended report users.

#### Future-oriented information

- 3.52 Legal or regulatory requirements may apply to some future-oriented information

in some jurisdictions, covering, for example:

- The types of disclosures that may be made
- Whether cautionary statements may be required or permitted to highlight uncertainty regarding achievability
- An obligation to publicly update such information.

3.53 Key to the intended report users' understanding of future-oriented information is a description of the main assumptions applied by the organization, the volatility of those assumptions, and how the information could change if the assumptions do not occur as described.

#### *Neutrality*

3.54 A neutral integrated report is balanced and fair, it has no bias in the selection or presentation of information. ***The overall presentation of the content of the integrated report should provide an unbiased view of the organization's ability to create value in the short, medium and long term.***

3.55 Information is not to be slanted, weighted, emphasized, de-emphasized, or otherwise manipulated to change the probability that it will be received either favourably or unfavourably by the intended report users. Similarly, information about material matters is not to be combined or offset to present a more favourable situation than actually exists.

3.56 Important methods to ensure neutrality include:

- Selection of presentation formats that are not likely to unduly or inappropriately influence a decision or judgement by the intended report users
- Giving equal weighting to both increments and decrements to the capitals, both strengths and weaknesses of the organization, both positive and negative performance, etc.
- Reporting against previously reported targets, forecasts, projections and expectations.

#### *Freedom from error*

3.57 Freedom from error implies that there are no errors or omissions in the information presented and that the process used to produce the reported information has been selected and applied without error. This does not imply that the information is perfectly accurate in all respects. It does imply that where amounts are estimates, this is clearly communicated, the nature and limitations of the estimation process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

3.58 ***To ensure that the integrated report is free from error, the organization should use processes and controls to reduce to an acceptably low level the risk that reported information contains a material misstatement and does not knowingly permit misstatements to be included.***

### **3F Comparability and consistency**

3.59 ***Guiding Principle 6 – The information in an integrated report should be presented in a way that enables comparison with other organizations to the extent it is material to the reporter's own value creation story, and***

***on a basis that is consistent over time.***

#### *Comparability*

3.60 The specific information in an integrated report will, necessarily, vary from one organization to another because it is important for each organization to express its own unique value creation story. Nonetheless, addressing the questions relating to the Content Elements, which apply to all organizations, helps ensure a suitable level of comparability between organizations. Other powerful tools for enhancing comparability (both in the integrated report itself and in more detailed information referenced from the integrated report) can include reporting the following to the extent they are material:

- Benchmark data, such as industry or regional benchmarks
- KPIs commonly used by other organizations with similar activities, particularly when standardized definitions are stipulated by an independent organization (e.g., an industry body). Such KPIs should not, however, be included in the integrated report unless they are relevant to the individual circumstances of the organization.
- Presenting normalized information/ratios (e.g., research expenditure as a percentage of sales, or carbon intensity measures such as emissions per unit of output).

#### *Consistency*

3.61 ***Reporting policies should be followed consistently from one period to the next unless a change is needed to improve the quality of information reported.*** This includes using the same KPIs to report on the same matters if they continue to be material across reporting periods. When a significant change has been made, the organization explains the reason for the change, describing (and quantifying, if practicable and material) its effect.

3.62 ***When information in the integrated report is similar to or based on other information published by the organization, it should be prepared on the same basis as, or be easily reconcilable with, that other information.*** For example, where a KPI or discussion of performance covers a similar topic to information published in the organization's financial statements or sustainability report, its consistency is enhanced when it is prepared on the same basis, and for the same period, as that other information.

## 4. CONTENT ELEMENTS

- 4.1 ***An integrated report should include all the following Content Elements, answering the respective question posed for each one:***
- A Governance**
  - B Business model**
  - C Organizational overview and operating context**
  - D Opportunities and risks**
  - E Strategy and resource allocation**
  - F Performance**
  - G Future outlook**
- 4.2 These Content Elements are fundamentally linked to each other and are not mutually exclusive. ***The Content Elements are not intended to serve as a standard structure for an integrated report with information about them appearing as isolated, standalone sections. Rather, information in the integrated report should be presented in a way that makes the connections between the Content Elements apparent.***
- 4.3 Each Content Element is stated in the form of a question rather than a listing of content. Accordingly, senior management and those charged with governance will need to exercise considerable judgement in applying the Guiding Principles to determine what matters are reported, as well as how they are reported (e.g., whether detailed and relatively static information such as an unchanged listing of subsidiaries should appear on the organization’s website with the integrated report including only summarized information or important changes along with a reference to where further information can be found).
- 4.4 ***While other reports and communications (such as financial statements, a sustainability report or detailed website disclosures) may be referenced or linked for those stakeholders who want additional detail, the discussion in an integrated report should stand alone notwithstanding that it is considerably more concise.***
- 4.5 ***The actual content of any organization’s integrated report will depend on the individual circumstances of that organization; therefore, the specific disclosures noted in the Framework under each Content Element should not be treated as a checklist.***

### 4A Governance

4.6 <b><i>Content Element 1 – An integrated report should answer the question: what is the organization’s governance structure, and how does it support the organization’s ability to create value in the short, medium and long term?</i></b>
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- 4.7 An integrated report provides insight about such matters as:
- The organization’s leadership structure, including the diversity and skill set of those charged with governance
  - Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its “tone at the top” and

attitude to risk<sup>9</sup>

- Particular actions those charged with governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management
- How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the various capitals
- How the organization's culture and ethical values are reflected in its use of and effects on the various capitals, including its relationships with key stakeholders<sup>10</sup>
- Whether, and if so how, the organization is implementing emerging best governance practices that go beyond legal requirements
- The responsibility those charged with governance take for promoting and enabling innovation.

4.8 With respect to remuneration and incentives, the integrated report focuses on significant compensation policies and practices (including cash, deferred compensation, post-retirement benefits and stock arrangements). This may involve both quantitative and qualitative information about oversight arrangements for remuneration of senior executives, and how the links between the organization's strategy and its use of and effects on various capitals are used to arrive at performance-based compensation, including future remuneration and fixed and variable components.

4.9 KPIs may be used to report information such as multiples of average pay, with a reference to more detailed or relatively static information that is reported elsewhere (e.g., a statutory report).

#### **4B Business model**

**4.10 *Content Element 2 – An integrated report should answer the question: what are the organization's key inputs, value-adding activities, outputs, and outcomes in terms of the capitals?***

4.11 The integrated report describes the organization's business model, as discussed in Section 2C, including:

- Key inputs, and to the extent it is important to understanding the robustness and resilience of the business model, how they relate to the capitals from which they derive, being those on which the organization depends or that provide a source of differentiation for the organization
- Key value-adding activities, considering such factors as:
  - how the organization differentiates itself in the market place (e.g., product differentiation, market segmentation, and channels used to communicate with potential customers and deliver market offerings)

<sup>9</sup> For further guidance see, for example: "Enterprise Risk Management - Understanding and Communicating Risk Appetite" (2012), Committee of Sponsoring Organizations of the Treadway Commission, at <http://tinyurl.com/7w7xtmj>.

<sup>10</sup> For further guidance see, for example: "Practice Guide: Evaluating Ethics-related Programs and Activities" (2012), Institute of Internal Auditors, at <http://tinyurl.com/c4bw8e8>.

- the extent to which the business model relies on revenue generation after the initial point of sale (e.g., extended warranty arrangements or network usage charges)
  - how the organization approaches the need to innovate
  - how the business model has been designed to adapt to change
- Key outputs, explaining the key products and services that the organization places in the market with the aim of creating value, and material waste and by-products
  - Key outcomes in terms of the capitals, including both internal outcomes (e.g., revenue and cash flow) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects).
- 4.12 Features that can enhance the effectiveness and readability of the description of the business model include:
- Explicit identification of the key elements of the business model
  - A simple diagram highlighting key elements, supported by a clear explanation of the relevance of those elements to the organization
  - Narrative flow that is logical given the particular circumstances of the organization
  - Identification of critical stakeholder and other (e.g., raw material) dependencies, key value drivers (see paragraphs 2.44-2.45) and important external factors, including factors over which it has control
  - Positioning of the organization within the entire value chain
  - Connection to other aspects of reporting, including strategy, opportunities and risk, KPIs, and financial considerations like cost containment and revenues.

#### *Organizations with multiple business models*

- 4.13 Some organizations employ more than one business model (e.g., when operating in different market segments). Unbundling the organization to its material constituent operations and associated business models is important to an effective explanation of how the organization operates. This requires a distinct consideration of each material business model as well as commentary on the extent of connectivity between the business models, such as the existence of synergistic benefits.
- 4.14 Some organizations consist of multiple, diverse business divisions or segments managed by a central corporate division acting in an investment management capacity. The assessments made by providers of financial capital in these cases are likely to focus on the investment management business model rather than the business models of the individual segments. In such cases the integrated report focuses on the business model of the corporate centre.
- 4.15 The integrated report of an organization with multiple businesses often needs to balance disclosure with the need to reduce complexity. The Guiding Principle of materiality and conciseness, as discussed in Section 3D, is very relevant here. Aligning external reporting with internal reporting by considering the top level of information that is regularly reported to those charged with governance is nearly always appropriate, even for the most complex of organizations.

#### 4C Organizational overview and operating context

4.16 **Content Element 3 – An integrated report should answer the question: what does the organization do and what are the circumstances under which it operates?**

4.17 The integrated report provides essential context by identifying:

- The organization's:
  - mission, vision, culture and ethical values
  - ownership and operating structures
  - principal activities, markets, products and services
  - competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry)
- The reporting boundary and how it has been determined (see also Section 5D)
- Key quantitative information (e.g., the number of employees, turnover, and number of countries in which the organization operates) highlighting, in particular, significant changes from prior periods.
- Significant external factors

##### *External factors*

4.18 External factors include aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to create value in the short, medium and long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality, and affordability of a capital that the organization depends upon or affects in creating value).

4.19 External factors occur in the context of the particular organization, in the context of its industry or region, and in the wider social or planetary context. They may include, for example:

- The legitimate needs, interests and expectations of the organization's stakeholders
- Macro and micro economic conditions, such as economic stability, globalization, and industry trends
- Market forces, such as the relative strengths and weaknesses of competitors and customer demand
- The speed and effect of technological change
- Societal issues and changing societal expectations, such as population and demographic changes, human rights, health and poverty, collective values and educational systems
- Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached
- The legislative and regulatory environment in which the organization operates
- The political environment in countries in which the organization operates

and in other countries that may affect the ability of the organization to implement its strategy.

#### 4D Opportunities and risks

**4.20 *Content Element 4 – An integrated report should answer the question: what are the key opportunities and risks that affect the organization’s ability to create value over the short, medium and long term?***

4.21 The integrated report identifies the organization’s key opportunities and risks,<sup>11</sup> including those that relate to the organization’s effects on, and the continued availability, quality and affordability of, relevant capitals.

4.22 The integrated report identifies:

- The specific source of opportunities and risks, which may be internal, external or, commonly, a mix of the two. External sources include those stemming from the external factors, as discussed in paragraphs 4.18-4.19. Internal sources include those stemming from the organization’s value-adding activities, as discussed in paragraphs 2.28-2.31.
- The organization’s assessment of the likelihood that the opportunity or risk will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the opportunity or risk to come to fruition and the specific steps the organization is taking to manage the opportunity or risk. Such disclosure will invariably involve a degree of uncertainty. Guidance on likelihood and magnitude of effect is included in included in Section 3D, and guidance on disclosures with respect to uncertainty is included in Section 5A.

4.23 The integrated report identifies the organization’s approach to any real risks that are fundamental to the ongoing ability of the organization to create value and that could have extreme consequences, even though the probability of their occurrence might be considered quite small.

#### 4E Strategy and resource allocation

**4.24 *Content Element 5 – An integrated report should answer the question: where does the organization want to go and how does it intend getting there?***

4.25 An integrated report identifies:

- The organization’s short, medium and long term strategic objectives
- The strategies it has in place, or intends to implement, to achieve those strategic objectives
- The resource allocation plans it has in place, or intends to implement, to implement its strategy
- How it will measure achievements and target outcomes for the short, medium and long term.

4.26 The integrated report describes:

<sup>11</sup> For further guidance see, for example: “Enterprise Risk Management — Integrated Framework” (2004) and related “ERM Thought Papers” (various), Committee of Sponsoring Organizations of the Treadway Commission, at <http://tinyurl.com/bmmdp75>.

- The linkage between the organization’s strategy and resource allocation plans, and the information covered by other Content Elements, including how its strategy and resource allocation plans:
  - relate to the organization’s current business model and what changes to that business model may be necessary to implement chosen strategies
  - are influenced by/respond to the operating context and the identified opportunities and risks
  - affect key capitals, and risk management arrangements related to those capitals
- What differentiates the organization, giving it competitive advantage and making it able to realize value in the future, such as:
  - the role of innovation
  - how the organization develops and exploits intellectual capital
  - the extent to which environmental and social considerations have been embedded into the organization’s strategy to give it a competitive advantage.
- Key features and findings of stakeholder consultations that were used in formulating its strategy and resource allocation plans.

#### 4F Performance

4.27 ***Content Element 6 – An integrated report should answer the question: to what extent has the organization achieved its strategic objectives and what are the outcomes in terms of the capitals that have resulted from its activities?***

- 4.28 An integrated report contains qualitative and quantitative information about performance, including:
- Quantitative indicators, such as KPIs<sup>12</sup>, with respect to targets, value drivers and opportunities and risks, explaining the significance and implications of those indicators and the methods and assumptions used in compiling them
  - The organization’s effects (both positive and negative) on the capitals
  - The state of key stakeholder relationships and how the organization has responded to stakeholders’ legitimate needs, interests and expectations
  - The linkages between past and current performance, and between current

<sup>12</sup> For further guidance see, for example: “Reporting Intangibles” (2005), Athena Alliance, at <http://tinyurl.com/97a7y25>, “KPIs for ESG: A Guideline for the Incorporation of ESG into Financial Analysis and Corporate Valuation” (2010), Society of Investment Professionals in Germany in conjunction with European Federation of Financial Analysts Societies, at <http://tinyurl.com/d63y9sd>, “The Sustainability Reporting Framework” (various), Global Reporting Initiative, at <http://tinyurl.com/czg6l89>, “ESG Reporting Guide for Australian Companies: Building The Foundation For Meaningful Reporting” (2011), Financial Services Council and the Australian Council of Superannuation Investors, at <http://tinyurl.com/c24grwc>, and “Concept Paper on WICI KPI in Business Reporting ver.1” (2010), World Intellectual Capital Initiative at <http://www.wici-global.com/kpis>.

performance and future outlook.

- 4.29 It is important to demonstrate the connectivity of financial performance with performance regarding the other capitals. This may include, for example, using KPIs that combine financial measures with other components (e.g., the ratio of greenhouse gas emissions to sales), narrative explaining the financial implications of significant effects on other capitals (e.g., expected revenue growth resulting from efforts to enhance human capital), or monetization with respect to externalities (e.g., carbon emissions and water use).
- 4.30 Information about outcomes includes a description of the organization's view of its material economic, environmental and social impacts up and down the value chain, along with quantitative information to the extent relevant and practicable. This may include information about such things as macroeconomic implications, carbon emissions, or labour practices of entities with which the organization has important relationships, such as key suppliers. (See also Section 5D.)
- 4.31 If regulations have a material effect on performance (e.g., a constraint on revenues as a result of regulatory rate setting) or if the organization's non-compliance with laws or regulations may materially affect the organization's operations, that is included in the discussion of performance.
- 4.32 The many interdependencies that exist between components of various capitals inevitably means that organizational performance is affected by many trade-offs:
- Between capitals or between components of a capital (e.g., creating employment, which increases social and relationship capital, through an activity that negatively affects the environment, which decreases natural capital)
  - Over time (e.g., choosing a course of action when it is likely that a different course would result in a greater overall capital increment but not until a later period)
  - Between capitals owned by the organization and those owned by others or not owned at all.

The integrated report includes specific information about the nature and magnitude of material trade-offs.

- 4.33 Quantitative indicators can help increase comparability and are particularly helpful in expressing, and reporting against, goals and targets. Common characteristics of suitable quantitative indicators include that they are:
- Relevant to the individual circumstances of the organization
  - Consistent with indicators used by those charged with governance
  - Connected (e.g., they display connectivity between financial and other information)
  - Focused on the matters identified by the organization's materiality determination process
  - Presented with targets, forecasts or projections for 2 or more future periods
  - Presented against targets, forecasts or projections for 3 or more past periods, for the purpose of accountability and to give the intended report users an appreciation of trends
  - Consistent with industry or regional benchmarks to give the intended

report users a basis for comparison

- Reported consistently over successive periods, regardless of whether the resulting trends and comparisons are favourable or unfavourable
- Presented with qualitative information to provide context and improve meaningfulness. Relevant qualitative information includes an explanation of:
  - measurement techniques and underlying assumptions used in their compilation
  - the reasons for significant variations from targets, trends or benchmarks, and why they are or are not expected to reoccur.

4.34 Where it is not practicable quantitatively to measure material movements in the capitals, qualitative disclosures are made to explain changes in the availability, quality, or affordability of capitals as business inputs and how their use by the organization enhances or depletes them. In some cases monetization of these factors may be appropriate; this is an area of innovation and development.

#### 4G Future outlook

4.35 ***Content Element 7 – An integrated report should answer the question: what opportunities, risks, challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and its future performance?***

- 4.36 Future outlook highlights anticipated changes over time. It provides information, built on sound and transparent analysis, about:
- The expectations of senior management and those charged with governance about the operating context the organization is likely to face in the short, medium and long term future
  - How that will affect the organization
  - How the organization is currently equipped to respond to the critical opportunities, risks, challenges and uncertainties that may arise.
- 4.37 Care is needed to ensure the organization’s stated expectations, aspirations and intentions are grounded in reality. They need to be commensurate with the ability of the organization to deliver on the opportunities available to it (including the availability, quality and affordability of appropriate capitals), and a realistic appraisal of the organization’s competitive landscape and market positioning, and the opportunities and risks it faces.
- 4.38 The integrated report includes a discussion of the potential implications, including implications for future financial performance, of:
- External factors, opportunities and risks, with an analysis of how these could affect the achievement of strategic objectives
  - The availability, quality and affordability of capitals the organization uses or effects (e.g., the continued availability of skilled labour or natural resources), including how key relationships are managed, and why they are, or may be, important to the organization’s ability to create value over time.
- 4.39 The discussion provides the intended report users with an understanding of the

organization's main assumptions and possible risks, and, wherever practicable, lead indicators, targets, forecasts and projections, relevant information from recognised external sources, estimates of KPIs for the future, and sensitivity analyses.

WORKING DRAFT ONLY

## 5. PREPARATION AND PRESENTATION

- 5.1 This chapter provides guidance on the following topics:
- A Disclosure of material matters and the materiality determination process
  - B Frequency of reporting
  - C Time frames for short, medium and long term
  - D Reporting boundary
  - E Aggregation and disaggregation
  - F Involvement of those charged with governance
  - G Use of technology
  - H Assurance
- 5.2 This guidance is intended to help organizations implement the Guiding Principles and Content Elements identified in Chapters 3–4.

### 5A Disclosure of material matters and the materiality determination process

- 5.3 Judgement is applied in determining the appropriate disclosure of material matters in the integrated report. Taking the nature of a matter into consideration, the organization considers providing:
- Key information about the matter, such as:
    - an explanation of the matter and its affect on the organization’s strategy, its business model or the capitals
    - relevant interactions, and interdependencies, providing an understanding of causes and effects
    - the organization’s view on the matter
    - actions to manage the matter and how effective they have been
    - the extent of the organization’s control over the matter
    - quantitative and qualitative disclosures, including comparative information for prior periods and targets for future periods
  - If there is uncertainty surrounding a matter, disclosures about the uncertainty, such as:
    - an explanation of the uncertainty
    - the range of possible outcomes and associated assumptions and probabilities
    - the certainty range or confidence interval associated with the information provided.
  - If key information about the matter is considered indeterminable, disclosure of that fact and the reason for it.
- 5.4 Depending on the nature of a matter, it may be appropriate to present it on its own in the integrated report or in conjunction with different Content Elements.

#### *Disclosure of the materiality determination process*

- 5.5 As required by paragraph 3.42, the integrated report should disclose the organization’s materiality determination process. . At a minimum, the integrated

report:

- Describes the process used to identify relevant matters
- Describes the process used to narrow down the relevant matters to material matters
- Identifies the key personnel involved in (i) identification, and (ii) prioritization of material matters
- Identifies the governance body with oversight responsibilities for the integrated report.

## **5B Frequency of reporting**

- 5.7 It is anticipated that an integrated report would be prepared annually in line with the statutory financial reporting cycle; however, many of the <IR> concepts can be applied continuously.
- 5.8 Preparation of an integrated report annually does not mean that the organization does not communicate changes to its strategy, governance, performance and prospects until the preparation of the integrated report. Rather the organization considers the application of <IR> concepts to statutory and other reports and communications, such as real-time reporting between the publication of annual integrated reports (see Section 5G on the use of technology).

## **5C Time frames for short, medium and long term**

- 5.9 Given the nature of the matters that <IR> seeks to address, the future time dimension to be considered in preparing an integrated report will typically be longer than for some other forms of reporting. The length of each time frame for short, medium and long term is to be decided by the organization with reference to its business and investment cycles, its strategies, and its stakeholders' legitimate needs, interests and expectations. Accordingly, there is no set answer for establishing the length for each term.
- 5.10 Time frames differ by
- Industry or sector (e.g., strategic objectives in the automobile industry typically cover two model-cycle terms, spanning between eight and ten years, whereas within the technology industry, time frames may be significantly shorter)
  - The nature of certain matters (e.g., some issues affecting natural and social and relationship capitals can be very long term in nature).
- 5.11 The length of each reporting time frame and the reason for such length are disclosed in the integrated report, and may affect the nature of information disclosed. For example, because longer term matters are more likely to be more affected by uncertainty, information about them may be more likely to be qualitative in nature, whereas information about shorter term matters may be better suited to quantification, or even monetization.

## **5D Reporting boundary**

- 5.12 As noted in paragraph 4.17, the integrated report identifies its reporting boundary and explains how it has been determined. Determining the boundary for an integrated report has two aspects:
- The boundary used for financial reporting purposes (the financial reporting entity)

- Opportunities, risks and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a material effect on the ability of the financial reporting entity to create value over time.

5.13 Central to the reporting boundary is the financial reporting entity. This is because:

- It is the financial reporting entity that providers of financial capital, the primary audience for an integrated report, invest in and therefore need information about
- Using the financial reporting entity enables the information in the financial statements to serve as an anchor or point of reference to which the other information in the integrated report can be related as appropriate.

5.14 Figure 6 depicts a mapping of the entities/stakeholders that are considered in determining the organization's reporting boundary.

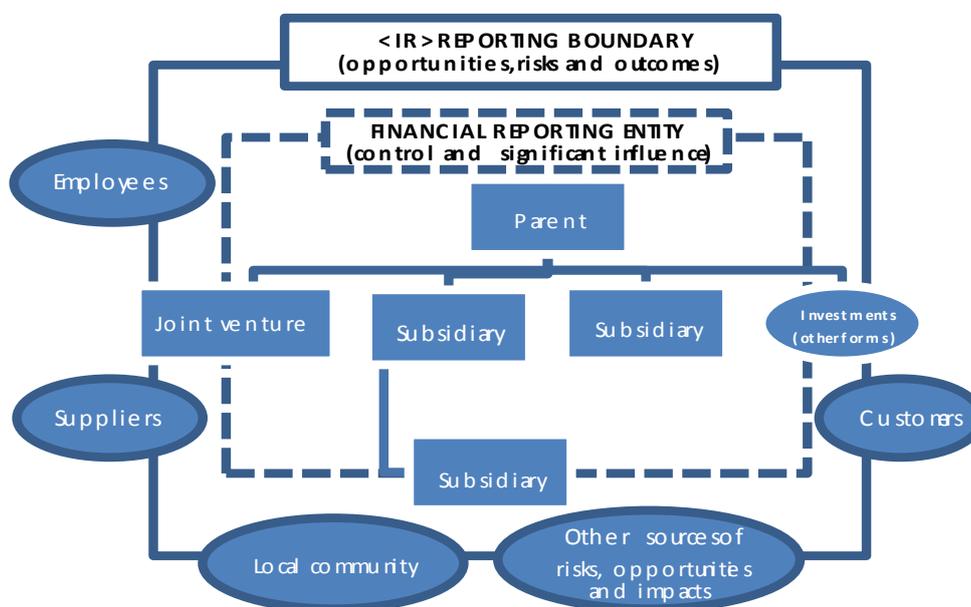


Figure 6: Mapping the entities/stakeholders that are considered in determining the organization's reporting boundary

### Financial reporting entity – control and significant influence

5.15 Broadly speaking, the financial reporting entity identifies which subsidiaries, joint ventures and associates' transactions and related events are included in the organization's financial report. The financial reporting entity is determined according to International Financial Reporting Standards<sup>13</sup> (or other applicable

<sup>13</sup> For further guidance see, for example: International Financial Reporting Standard (IFRS) 10 "Consolidated Financial Statements" (2012), IFRS 11 "Joint Arrangements" (2012), and IFRS 12 "Disclosure of Interests in Other Entities" (2012), International Accounting Standards Board, at [www.ifrs.org/IFRSs/Pages/IFRS.aspx](http://www.ifrs.org/IFRSs/Pages/IFRS.aspx)

financial reporting standards or regulations) and revolves around the concepts of control or significant influence. Considering this central aspect of the reporting boundary:

- (a) Material opportunities, risks and outcomes attributable to or associated with entities that are included in the financial reporting entity are reported on in the organization's integrated report.
- (b) Information is prepared on the same basis as, or reconciled to, any corresponding information in the organization's financial statements in terms of (i) the entities covered and (ii) the measurement methods and the time frames used.

#### *Opportunities, risks and outcomes*

5.16 The second aspect of determining the reporting boundary is to identify those opportunities, risks and outcomes attributable to or associated with entities/stakeholders beyond the financial reporting entity that have a material effect on the ability of the financial reporting entity to create value over time. The following are considered in identifying and reporting on material matters with respect to this second aspect of the reporting boundary:

- (a) Opportunities, risks and outcomes attributable to or associated with other entities/stakeholders are reported on in an organization's integrated report to the extent they materially affect the ability of the financial reporting entity to create value in the short, medium or long term.
- (b) These other entities/stakeholders may be "related parties" for the purpose of financial reporting, but will ordinarily extend further to include such other stakeholders as suppliers, customers, employees and others (e.g., local communities).
- (c) The purpose is not to identify *entities* to be included in the reporting boundary, but to identify the *opportunities, risks and outcomes* that materially affect the ability of the financial reporting entity to create value. The entities/stakeholders within this portion of the reporting boundary are not related to the financial reporting entity by virtue of control or significant influence, but rather by the nature and proximity of the opportunities, risks and outcomes.

For example, if the labour practices in the organization's industry are material to the ability of the organization to create value, then the labour practices of suppliers may be material. The nature and extent of information about those labour practices to be included in the organization's integrated report will be affected by such matters as the capacity of the organization to affect the labour practices in its supply chain.

- (d) Practical issues, such as:
  - the availability of reliable data with respect to entities the financial reporting entity does not control
  - the inherent inability to identify all opportunities, risks and outcomes that will materially affect the ability of the financial reporting entity to create value, particularly in the long term

may limit the nature and extent of information that can be presented in the integrated report. It may be appropriate to disclose such limitations,

and actions being taken to overcome them, in the integrated report.

#### *Relationship to the capitals model*

5.17 Appendix A provides examples of links between the various capitals, the financial reporting entity and other entities/stakeholders to illustrate how the capitals model can be used in conjunction with stakeholder analysis. Mapping links in this way may be helpful when determining the reporting boundary. The columns of the table in Appendix A align with the entities/stakeholder groups identified in Figure 6.

#### **5E Aggregation and disaggregation**<sup>14</sup>

5.18 Each organization determines the level of aggregation (e.g., by country, subsidiary, division, or site) at which to present information that is appropriate to its particular circumstances. This includes balancing the effort required to disaggregate (or aggregate) information against any added meaningfulness of information reported on a disaggregated (or aggregated) basis.

5.19 In some circumstances, aggregation of information can result in the loss of a significant amount of meaning, and can also fail to highlight particularly strong or poor performance in specific areas. On the other hand, unnecessary disaggregation can result in clutter that adversely affects the ease of understanding the information. The organization disaggregates (or aggregates) information to an appropriate level considering, in particular, the way in which those charged with governance and senior management manage the organization and its operations, this may commonly result in presenting information based on the business or geographical segments used for financial reporting purposes.<sup>15</sup>

5.20 The Guiding Principle, “Materiality and conciseness”, may be served by including a link in an integrated report to disaggregated information that appears elsewhere, such as on the organization’s website (see Section 5G).

#### **5F Involvement of those charged with governance**

5.21 Those charged with governance have ultimate responsibility for how the organization’s strategy, governance, performance and prospects lead to long term value creation. They are responsible for ensuring that there is effective leadership and decision-making regarding <IR>, including the identification and oversight of employees actively involved in the <IR> process, including the internal processes to identify material matters and collect, accumulate and report material information.<sup>16</sup>

5.22 ***The integrated report should identify the governance body with oversight responsibilities for <IR>.*** Such body may include a statement in the integrated report regarding the following matters:

- The name of the governance body that has oversight responsibilities for <IR>

<sup>14</sup> See also paragraphs 4.23–4.26 regarding organizations with multiple business models.

<sup>15</sup> For further guidance see, for example: *International Financial Reporting Standard 8 “Operating Segments”* (2009), International Accounting Standards Board, at <http://tinyurl.com/8pbjsga>.

<sup>16</sup> For guidance on the reporting process itself see, for example, *“International Good Practice Guidance, Principles for Effective Business Reporting Processes”* (2013) Professional Accountants in Business Committee of the International Federation of Accountants, at [URL](#)

- An acknowledgement of its responsibility to ensure the integrity of the integrated report
- That it has applied its collective mind to the preparation of the integrated report and the information it contains
- Its opinion or conclusion as to whether the information in the report presents a reasonable and balanced view, in accordance with the Framework, of how the organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.

## **5G Use of technology**

- 5.23 Advances in technology enable innovative approaches to reporting that are particularly relevant to the application of the Guiding Principle, "Connectivity of information". Organizations are encouraged to use technology platforms to increase connectivity within the integrated report and to information outside of the report, and to facilitate comparisons between reports.
- 5.24 Technology, such as the Internet, eXtensible Business Reporting Language (XBRL), and social media can play an important role in <IR> if used properly. The following paragraphs illustrate a few ways in which technology may be used in an integrated report, however, it is recognized that this will evolve over time to keep in step with the current state of, and trends in, technology and likely future advances.

### *Links to websites*

- 5.25 An integrated report may be hyperlinked (or referenced, if the integrated report is paper based) to information on the organization's website or on other websites. For example, detailed information that does not change frequently, such as a listing of subsidiaries, may best be included on a linked section of the organization's website, rather than in its integrated report, or critical assumptions about future economic conditions may be linked to an authoritative source such as a government website.
- 5.26 If information is linked to information outside of the integrated report, care is needed to ensure that such information will continue to be accessible and reliable, and that any relevant legal implications are considered if the integrated report is being used to satisfy regulatory requirements.

### *XBRL*

- 5.27 One of the standardized technology platforms that may be used for <IR> is XBRL. XBRL improves the way information is created, processed, distributed and analyzed by providing standardized definitions, labels, calculations, references and contexts applicable to individual numbers and narrative text. Beneficial characteristics of XBRL that improve connectivity are consistent semantic definitions of, and explicit relationships between, the components of an integrated report.
- 5.28 XBRL may be used to capture the integrated report in machine-readable format for the intended report users to more easily compare integrated reports of various organizations. While taxonomies exist for financial statements and sustainability reports, no such taxonomy currently exists that covers all aspects of an integrated report.

## *Social media*

- 5.29 Social media (i.e., interactive platforms that enable sharing of user-generated content) is rapidly increasing in popularity as a primary source of information. Its capacity to connect information from different sources is also rapidly increasing (e.g., there is an observable trend towards using social media monitoring tools that allow users to search, track and analyse information about organizations or topics of interest).
- 5.30 Social media may be part of a suite of information and communication technologies an organization uses to disseminate information generated by the <IR> process. It may also be used as a tool to generate information relevant to <IR> (e.g. it may be used as means of engaging with stakeholders).

## **5H Assurance**

- 5.31 Organizations use a variety of mechanisms to provide comfort internally to those charged with governance that complete and reliable information is included in an integrated report. Organizations have internal controls systems, which may include an internal audit (or similar) function, as part of the processes for managing, reviewing and reporting information. These internal systems are important to the overall integrity and credibility of an integrated report. Organizations may also have activities that report externally on the quality or level of performance, such as performance certifications or compliance assessments and, in some cases, internal audit reports may also be made available to external stakeholders.
- 5.32 In addition, organizations may seek independent, external assurance to enhance the credibility of their reports. Independent, external assurance may also provide comfort, in addition to internal mechanisms, to those charged with governance. Independent, external assurance has the following characteristics, it:
- Is conducted by groups or individuals external to, and independent of, the organization who are demonstrably competent in both assurance practices in accordance with professional assurance standards, and <IR> as it applies to the organization, which includes a comprehensive knowledge of:
    - this Framework and any other guidance issued by the IIRC
    - the organization's business, including any specialist strategic, operational or industry/sector issues relevant to the organization
    - the organization's processes for preparing the integrated report.
  - Is implemented in a manner that is systematic, documented, evidence-based, characterized by defined procedures and governed by professional standards or protocols covering engagement performance, independence and quality control (both at the engagement and organizational level of the assurance provider)
  - Results in a written conclusion(s), which ideally is addressed to the intended users of the integrated report and covers whether the information in the report presents a reasonable and balanced view, in accordance with the Framework, of how the organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
- 5.33 The Framework provides the reporting criteria to which organizations and assurance providers assess a reporting organization's adherence; it is not intended to provide the protocols for performing assurance engagements.

## GLOSSARY

For the purpose of the Framework and any other guidance issued by the IIRC, unless stated otherwise, the following terms have the meanings attributed below:

1. *Accountability*: The duty of an organization to account for its actions to those affected by those actions.
2. *Business model*: An organization's chosen system of inputs, value-adding activities, outputs and outcomes that aims to create value over the short, medium and long term.
3. *Capitals*: Stores of value that an organization can use in the production of goods or the provisions of services but which are not used up immediately in that process. The capitals identified in this Framework are: financial, manufactured, intellectual, human, social and relationship, and natural.
4. *Connectivity*: The combination, inter-relatedness and dependencies between the components that are material to an organization's ability to create value in the short, medium and long term.
5. *Integrated report*: A concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value in the short, medium and long term. An integrated report is the most visible and tangible manifestation of <IR>. It should be prepared following the International <IR> Framework and the process referred to in this document as "Integrated Reporting <IR>".
6. *Integrated Reporting <IR>*: A process that results in communication, most visibly through a periodic "integrated report", about value creation over time.
7. *Integrated thinking*: The ability of an organization to understand the relationship between its various operating and functional units and the capitals the organization uses and affects. Integrated thinking leads to integrated decision-making and actions that focus on the creation of long term, as well as short and medium term, value.
9. *Intended report users*: Providers of financial capital, particularly those who take a long term view of an organization's performance. Communications that result from <IR> will also be of benefit to a range of other stakeholders.
10. *Material/materiality*: A matter<sup>17</sup> is material if it is of such relevance and importance<sup>18</sup> that it could substantively influence the assessments of the intended report users with regard to an organization's ability to create value over the short, medium and long term.
11. *Monetize*: Measuring something in currency, whether or not it will ultimately be converted to cash. For example:
  - (a) Monetizing mineral reserves currently "in the ground" could be done by estimating their extent and using the expected market price at the time of extraction to calculate a monetized value. In this case, there is an expectation that the mineral reserves will actually be turned into cash at some future time.
  - (b) Monetizing externalities can be done even where there is no expectation

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<sup>17</sup> A matter or information includes, but is not limited to, an event, issue, opportunity, amount, or statement by the organization.

<sup>18</sup> Importance refers to both nature and magnitude.

that those externalities will be required to be paid for, at least for the foreseeable future. For example, an organization in a jurisdiction with no GHG trading scheme or regulatory levy can measure/estimate its emissions and use a market price from a jurisdiction that does have a trading scheme or regulatory levy to impute a monetized value.

12. *Outcomes*: The internal and external consequences for the capitals as a result of an organization's activities and outputs.
13. *Performance*: An organization's achievements relative to its strategic objectives, and its outcomes in terms of its effects on the capitals.
14. *Providers of financial capital*: Equity and debt holders, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers.
15. *Reporting boundary*: The boundary within which matters are considered relevant for inclusion in an organization's integrated report. It encompasses:
  - (a) The financial reporting entity
  - (b) Opportunities, risks and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a material effect on the ability of the financial reporting entity to create value over time.
16. *Stakeholder*: Those groups or individuals that can reasonably be expected to be significantly affected by an organization's activities, products or services, or whose actions can reasonably be expected to significantly affect the ability of the organization to successfully implement its strategies and achieve its objectives. Stakeholders may include providers of financial capital, employees, customers, suppliers, local communities, NGOs, regulators and policy-makers.
17. *Stewardship*: The responsibility of an organization to care for or use responsibly the capitals that its actions affect.
18. *Strategy*: Strategic objectives together with the strategies to achieve them.
19. *Those charged with governance*: The person(s) or organization(s) (e.g., the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organization and its obligations with respect to accountability.
20. *Value drivers*: Capabilities or variables that give an organization competitive advantage and over which it has some degree of control so as to create value.

## APPENDICES

### CONSIDER FILLING IN ALL SQUARES

#### A **Examples of links between the various capitals, the financial reporting entity and other entities/stakeholders** (see paragraph 5.16 of the text)

	<i>Financial reporting entity</i>	<i>Employees</i>	<i>Suppliers</i>	<i>Local community</i>	<i>Customers</i>	<i>Other stakeholders</i>
<b>Financial</b>	An organization's financial statements measure the stock and flow of its financial capital	Remuneration of employees is reflected in financial results	Payments from suppliers are reflected in financial results	Organizations may fund community activities	Receipts from customers are reflected in financial results	In some cases, an organization's effect on capitals owned by society are internalized (e.g., through emissions trading schemes)
<b>Manufactured</b>	Manufactured capital owned by the entity is reflected in the financial statements			An organization's use of infrastructure (e.g. roads, can affect the local community)		Physical infrastructure supplied by government (e.g., water treatment plants, is often critical to a business)
<b>Intellectual</b>	Some intellectual property is reflected in financial statements	Employees are a key contributor to intellectual capital	An organization may be heavily dependent on the intellectual capital of particular suppliers (e.g. the organization may be reliant on external technology)		How an organization deploys its intellectual capital may be a key reason why some customers do business with it	
<b>Human</b>	Remuneration of employees is reflected in financial results	Employees are the primary source of human capital	An organization may be able to influence labour practices (e.g., occupational health and safety, child labour, and freedom of association) in its supply chain		Customers may be attracted to an organization by well trained staff or may react adversely to poor practices (e.g., with respect to occupational health and safety)	
<b>Social and relationship</b>		Employees often invest time and the skills developed through paid work to enhance social and relationship capital through, for example, volunteer work	Key relationships, and the trust and loyalty that an organization has developed and strives to build and protect with suppliers is part of social and relationship capital	The local community is often an important source of social and relationship capital, an organization may be a dominant player in the local community (e.g. in many mining towns)	Key relationships, and the trust and loyalty that an organization has developed and strives to build and protect with customers is part of social and relationship capital	Society at large determines whether an organization retains its social license to operate
<b>Natural</b>	An organization may be required to internalize environmental costs that were previously externalized (e.g., through emissions trading schemes)		In many cases, an organization's use or effect on natural capital is in sourcing raw materials through the supply chain	An organization's activities can affect natural capital valued by the local community (e.g., pollution emitted by a factory)	Products bought by customers may have material effects on natural capital (e.g., Scope 3 emissions for a car manufacturer)	

## **B Other IIRC publications and resources**

In addition to the following, the IIRC website [www.theiirc.org](http://www.theiirc.org) includes frequently asked questions and other information about the IIRC and its activities:

*Background Papers*<sup>19</sup> on:

- Business model – *the business model is included as a fundamental concept in Chapter 2.*
- Capitals – *the capitals are included as a fundamental concept in Chapter 2.*
- Connectivity – *"Connectivity of information" is included as a Guiding Principle in Chapter 3.*
- Materiality – *materiality is included as a component of the Guiding Principle of "Materiality and conciseness" in Chapter 3.*
- Value creation – *creating value is included as a fundamental concept in Chapter 2.*

**Better Reporting for Better Business**<sup>20</sup> (title to be confirmed)

Emerging Integrated Reporting <IR> Database<sup>21</sup>

Pilot Programme 2012 Yearbook: Capturing the Experiences of Global Businesses and Investors<sup>22</sup>

## **C Basis for conclusions**

*This Appendix (or a separate document to be published with, or shortly after, publication of the Framework) will contain a summary of key issues raised in responses to the Consultation Draft and how they have been dealt with, and include an explanation of the reasons for dissenting votes, if any, of Council members.*

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<sup>19</sup> URL

<sup>20</sup> URL

<sup>21</sup> [examples.theiirc.org](http://examples.theiirc.org)

<sup>22</sup> <http://www.theiirc.org/resources-2/other-publications/2012-yearbook/>