Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:	Rients Abma
Email:	rients.abma@eumedion.nl
Stakeholder group:	Provider of financial capital

If replying on behalf of an Organization please complete the following:

Organization name:	Eumedion
Industry sector:	Financials
Geographical region:	Western Europe

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

Eumedion congratulates the IIRC with producing a draft framework for <IR> that we believe is sufficiently concise, very readable and therefore accessible to a broad group of professionals. We hope and expect that the framework will facilitate integrated thinking and will result in high quality integrated reporting.

Corporate reporting is of the utmost importance for investors. Long term investors are already well known to look beyond the financial facts and figures only. Both financial and non-financial information is important in their decision-making process. Eumedion believes that integrated reporting is a logical and necessary development, as environmental, social and governance information already is critical for assessing the performance and prospects of companies, and for the important stewardship role that investors both want and need to exercise.

Currently, finding all the relevant information is very time consuming and makes good research very expensive for investors. The draft framework draws an accurate picture of what long term investors need for their investment analysis and their engagement activities. We expect integrated reporting to be very helpful for investors for several reasons:

1) Concise and relevant information will enhance the proper allocation of capital.

2) Less unanswered questions help reduce risks for investors, and help to increase the willingness to invest.

3) Integrated reporting will reduce the time and cost of analysing again and again for many individual investors (and potential investors) in every single company that produces such a report.

4) More investors will be able to do their own research, instead of depending on costly investment analysis executed by third parties.

5) Integrated reporting will provide an enhanced basis for constructive shareholder and stakeholder engagement and may contribute to an environment of trust between companies and investors.

6) We expect integrated thinking to have a positive effect on the financial and non-financial performance of the entity, which is likely to benefit both shareholders and other stakeholders.

We expect preparers to benefit as well. We experience preparers are often eager to learn the information needs of stakeholders with a long term horizon, this draft framework will provide a better starting point for corporate reporting for many. We understand that it may prove to be a challenge to implement integrated thinking throughout the organization, and produce a report in accordance with the IIRC integrated reporting framework, but we are convinced this is a challenge worth taking up.

Our answers to the questions do contain a number of important specific issues that the final framework needs to address. There are a number of key issues we would like to highlight:

1. Companies should be urged to prepare their annual report (or management discussion and analysis) in accordance with IIRC's Framework for integrated reporting. The reporting framework should refrain from demanding the preparation of another separate document; companies should avoid publishing multiple reports that contain more or less the same information.

2. It is critical that the IIRC adheres to the existing definition that the providers of financial capital are identified as the primary intended user. Long term investor's interests generally are very well aligned with the interest of all other stakeholders. Without a proper identification of the audience, materiality cannot be determined and companies will not be able to provide a concise report.

3. We agree that the Framework should also continue to refrain from formulating standards for audit and for financial reporting.

4. We expect IIRC's framework for integrated reporting to evolve over time. In this early phase of the framework we concur with IIRC's view that the framework should not contain an obligation for companies to publish specific non-financial KPIs (section 1.13). We believe investors and other stakeholders will stimulate companies publishing non-financial KPIs and that there will be a natural tendency towards gradually moving to uniform sector-specific non-financial KPI's. For now it is too early to introduce KPIs in the framework. However, it could well be that in a framework version 2.0 the obligation to publish sector-specific non-financial KPI's could be beneficial for investors in order to increase comparability and uniformity.

5. We also concur with the current IIRC view that companies may decide by themselves to seek external assurance on parts of an annual report that is prepared in accordance with the IIRC integrated reporting framework (section 5.20). In the longer term we can imagine that the auditor's report contains a specific (limited assurance) section on specific parts of the annual report, e.g. the non-financial KPIs and the effectiveness of the internal control and risk management systems.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

We agree with the current limited amount of bold italic type requirements. However, the IIRC should evaluate whether this approach results in a sufficient proportion of high quality integrated reports, and should not be too hesitant to increase the amount of requirements (i.e. bold italic type paragraphs), if beneficial for the quality of integrated reporting in general.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

Eumedion regards the statutory report as the key document for communication with providers of financial capital, and many other stakeholders. The statutory report is defined by us as the corporate report containing the following three parts:

Part 1: the annual report

Part 2: the annual accounts

Part 3: the auditor's opinion

We propose that the framework urges companies to prepare the annual report in accordance with IIRC's Framework for integrated reporting (together with the national statutory requirements for the annual report). There are significant advantages to this approach:

1) The current statutory report is a document that has a strong legal status in most jurisdictions, whereas a separate document lacks a legal status. We expect integrated reporting to benefit from the strong existing legal status of the statutory report.

2) Making the IIRC integrated reporting framework the standard for preparing the annual report significantly reduces the risk of unnecessary and unwelcome duplicate content.

3) Eumedion strongly proposes the continued inclusion of the full and unabbreviated annual accounts as part of the statutory report. The full and unabbreviated annual accounts is a section that is of critical importance to the providers of financial capital. It should remain part of the key document for communication with the primary intended users.

4) An annual report prepared in accordance with the IIRC integrated reporting framework will be subject to the external auditor's consistency check with the annual accounts. This sets a minimum level of assurance for integrated reporting as well, and makes the content of integrated reporting subject to the rigor of regulatory bodies.

We therefore suggest that the IIRC adds to the framework a requirement that framework should be used to prepare the annual report of a reporting entity.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

Eumedion would be hesitant to create a short list of qualified authoritative sources in this early phase of the integrated reporting, since that may hinder emerging high quality sources to gain acceptance. We therefore limit our answer to mentioning a number of obvious sources like some of the existing standard setters for financial reporting, those sources that are mentioned in the preamble of the EC proposal for a Directive on non-financial and diversity information dated 16 April 2013, preamble number 7: Eco-Management and Audit Scheme, United Nations Global Compact, the Guiding Principles on Business and Human Rights implementing the UN “Protect, Respect and Remedy” Framework, the OECD Guidelines for Multinational Enterprises, ISO 26000, the International Labour Organization Tripartite Declaration of principles concerning multinational enterprises and social policy, and the Global Reporting Initiative.

Other

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

Eumedion supports the explanation in the draft framework why the providers of financial capital should be the primary intended user of an integrated report (paragraph 1.6-1.8).

We also support the aim for a principles based approach of the framework. We expect this approach to help avoid a ‘checking the box’ mentality and stimulate integrated thinking and innovation in reporting by preparers. The principles of integrated thinking and integrated reporting are not only beneficial to the largest listed entities and their stakeholders, but equally valuable to small and mid sized entities and their stakeholders, irrespective of the sector entities operate in.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

Yes, we agree. We agree with the definitions of the capitals identified. Even though we expect the capitals mentioned in the framework to be suitable for most companies, we also agree with allowing preparers to deviate.

6. Please provide any other comments you have about Section 2B?

We regard figure 4 on page 13 as confusing. The figure seems to suggest that creating financial capital also directly increases natural capital as well. The figure also shows a hierarchy of the capitals and then the note to the figure describes 'it is not intended to describe a hierarchy that must be used for <IR>'. This diagram unduly removes the focus from explaining the interconnectedness of the capitals, to a for investors less interesting question whether a capital could, from a more philosophical point of view, be regarded as being part of another capital.

We worry that preparers may interpret this diagram as a hint that the Framework asks them to find a hierarchy in the capitals, and describe why they reverted to their specific hierarchy. If a preparer were to define a hierarchy in the capitals, we expect this to cause confusion for investors: if capitals are defined as being part of another capital, there must be eliminations as well, else this may result in double counting in the value creation story. Or does the IIRC aim to make natural capital (or whatever capital a preparer defines as all encompassing) a common denominator for everything? We clearly are not in favor of this focus on any hierarchy in the capitals.

Instead, we suggest adding a requirement to the framework that in principle each of the capitals described should be defined by a preparer to mutually exclude the other capitals defined. For sake of comparability and ease of use, we note that it will be beneficial for the primary users to have a common approach to such definitions, which could either be agreed upon among the preparers or could be proposed by the IIRC after consulting the preparers.

Paragraph 2.25 on trade-offs, mentions 'between capitals owned by the organization and those owned by others or not at all' as the third bullet. We believe it should be mentioned as the first bullet.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

We prefer the more common definition of "business model" used in the report of the Financial Stability Board's Enhanced Disclosure Task Force: "A business model describes how an organisation creates, delivers, and captures value (economic, social, or other forms of value). The essence of a business model is that it defines the manner by which

the business enterprise delivers value to customers and converts that value into profit. It describes how an enterprise is organised to best meet customer needs, be paid for doing so and make a profit." (https://www.financialstabilityboard.org/publications/r_121029.pdf, p. 30).

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

Yes, we agree with this definition.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

No comments.

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

No comments.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

The definition of materiality rightfully takes the primary intended user as the start point for judging whether a matter is material or not. We prefer to eliminate the words 'in the view of senior management and those charged with governance', since the framework is in paragraph 5.17 already sufficiently clear on who is responsible for producing the <IR>. We fear that adding their perspective within the definition may be interpreted as providing a higher than intended degree of freedom in judging whether a matter is material to the primary user.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

We support the framework's description of the materiality determination process.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

Eumedion is in favor of adding a requirement (i.e. bold italic) that those charged with governance provide a statement of compliance to the <IR> framework. It already is very common for those charged with governance to provide various statements of compliance in the statutory report. The word “may” in section 5.18 should therefore be changed into “should”. In line with our answer to question 2, the reliability of integrated reporting should also demonstrated by a consistency check executed by the external auditor. This consistency check is safeguarded by our proposal to prepare the annual report in accordance with the IIRC integrated reporting framework. In line with paragraph 5.20 of the framework, entities may seek additional independent external assurance, if appropriate. Eumedion would like the IIRC to continue to refrain from setting standards for audit. This is in line with paragraph 5.21 of the Framework. We believe setting standards for audit is outside the scope of a standard setter on reporting.

14. Please provide any other comments you have about Section 3E.

No comments.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Paragraph 3.48 gives equal importance to consistency of time and to comparability. We also believe that both are important but in our view the ability to analyse the reporting entity’s performance over time is more important than comparability with other reporting entities.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

No comments.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

It already is a requirement of the framework to disclose the governance body with oversight responsibility for <IR>. In line with our answer to question 13, Eumedion is in favor of adding a requirement (i.e. bold italic) that those charged with governance provide a statement of compliance to the <IR> framework. It already is very common for those charged with governance to provide various statements of compliance in the statutory report.

18. *Please provide any other comments you have about Involvement of those charged with governance (Section 5D).*

No comments.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

Similar to our comments on question 13, Eumedion sees no role for the IIRC to provide guidance on audit. That said, we do regard a consistency check for the annual report prepared in accordance with the IIRC integrated reporting framework as a minimum start point, similar to the current, mandatory check applied by external auditors whether the annual report is consistent with the annual accounts. In line with paragraph 5.20, we concur with the view that entities may seek external independent assurance, not necessarily the external auditor.

20. *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

The <IR> framework can be regarded as an innovation in standard setting for corporate reporting. The external auditors community may need less or more time to offer appropriate assurance services. If the external auditor is requested to audit an annual report prepared in accordance with the IIRC integrated reporting framework and it turns out that the auditor cannot (yet) audit certain parts, the auditor's report should reflect these findings. Any inability for an external auditor to provide assurance, may not necessarily imply that the framework (or the auditor) is failing. It is up to the IIRC to evaluate over time whether the framework could be improved to allow for better auditability; and it is up to the external auditors to see what other ways may exist to provide any desired assurance. Especially in this phase of the framework, the reporting needs of the primary intended users should dominate the framework design, and explicitly not the auditability of the framework.

Other

21. *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

No comments.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

We expect investors to benefit significantly from the insight requirements that the draft framework sets for integrated reporting. We expect integrated reporting according to this framework to enhance not only investor's capital allocation decisions, but also to facilitate the engagement by investors with reporting entities. We do foresee that producing an annual report according to the framework may prove to be a challenge for preparers, especially for the first time. But we firmly believe that the framework will prove to be helpful for preparers as well as for investors, as it drives integrated thinking with the potential to significantly reducing risk for businesses and for investors and as it describes many insights that investors need to know.

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

Our three suggestions are:

1. How can companies prepare their statutory annual report in accordance with the IIRC integrated reporting framework.

2. Provide public comments on best practices (or good practices) of integrated reporting.

3. Provide insight in roadmap of the IIRC after completion of the framework.

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.

No comments.