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.

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Stakeholder group:	Other

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

Organization name:	Dutch Investors' Association
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.

The Dutch Investors' Association VEB was founded in 1924 to represent the interests of retail and institutional investors. Today, the VEB is the largest association representing investors in the Benelux with 50,000 members. The VEB is also a founding member of EuroInvestors (now: EuroFinuse) and EuroShareholders, both pan-European organisations representing retail investors and shareholders.

The IIRC has created a persuasive and well-thought out draft framework for Integrated Reporting <IR> which the VEB believes is very readable, a little provocative and open to comment. This merans it will appeal to a broad group of professionals and stakeholders. The VEB considers this framework will facilitate further debate on the future of the companies' 'licence to operate', the engagement of shareholders and sustainable real economic growth. Hopefully it will result in high quality integrated reporting.

The VEB believes it is important to note that although the main focus is on large listed companies, the principles of integrated thinking and integrated reporting are equally valuable to small and mid-sized entities and their stakeholders, irrespective of the sector in which they operate.

Corporate reporting is of the utmost importance to investors. Investors already look beyond the financial facts and figures. Companies derive their licence to operate through their actions. If a company fails to meet its responsibilities, whether with regard to environmental or industrial issues, the consequences can be enormous in terms of liability, financial losses and market confidence. Both financial and non-financial information are important in the decision-making process.

The VEB believes integrated reporting is a logical next step for companies to provide investors with better-balanced and more useful information to make informed investment decisions. The VEB understands it may prove a challenge for companies to implement integrated thinking throughout their organisation, and to produce a report in accordance with the IIRC integrated reporting framework, but believes this is a challenge worth taking up.

Currently, companies and investors are often not in tune with each other when it comes to providing all-encompassing information. Companies publish different reports on a wide range of topics each year. This means it can be very time-consuming for investors to collect all the necessary information. Good research is very expensive. As a result, investment opportunities or demands for capital may be missed. The draft framework draws up an accurate picture of what (long-term) investors need for their investment analysis and their engagement activities. The VEB expects integrated reporting to be very helpful for investors for the following reasons:

- Concise and relevant information will enhance the proper allocation of capital. It will support investors in making better informed investment decisions.

- Fewer unanswered questions help reduce risks for investors, and help to increase the willingness to invest in particular companies or investment propositions.

- Integrated reporting will reduce the time and cost of repeated analyses which individual investors (and potential investors) currently make.

- Institutional investors will be able to do their own research, instead of depending on costly investment analysis and advice from third parties.

- 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.

- The VEB expects integrated thinking to have a positive effect on the financial and non-financial performance of the company, which is likely to benefit both shareholders and other stakeholders.

The VEB will address three main aspects of the <IR> draft framework:

1. Companies should be urged to prepare their non-financial report, management discussion and analysis in accordance with the IIRC integrated reporting framework. This framework should not be used to prepare another corporate report (e.g. the financial report). The financial (statutory) report should still be prepared in accordance with IAS/IFRS principles. The VEB believes companies should avoid publishing multiple reports.

2. It is essential the IIRC continues to identify the providers of financial capital as the primary intended user. Long term investors' interests are generally very well aligned with the interest of all other stakeholders. Companies will not be able to provide a concise report if they do not properly identify the audience.

3. The framework should continue to refrain from formulating standards for audit and for

financial reporting. National laws and regulation remain paramount in these areas.

The VEB believes the IIRC integrated reporting framework will evolve over time. The VEB agrees with the IIRC's view that the framework should not require companies to publish specific non-financial KPIs (section 1.13) as soon as the framework is introduced. But if companies already use or rate non-financial KPIs internally, these should be published. Companies which do not use or rate non-financial KPIs should be subject to a transition period, at the end of which they would have to comply. The VEB also believes market participants will stimulate companies to publish their non-financial KPIs and that these will gradually become uniform sector-specific non-financial KPIs.

Eventually, within a period of three years after introduction, there should be a redefined integrated reporting framework that requires companies to publish sector-specific non-financial KPIs and so increase comparability and uniformity.

The IIRC is a private organisation and the VEB stresses that its guidelines will have to go through a process of endorsement, comparable to that of the IAS/IFRS rules when these were being adopted by the EU.

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.*

The VEB agrees with the current limited amount of bold italic type requirements. However, the IIRC should evaluate whether this approach will result in a sufficient proportion of high-quality integrated reports, and should not be too hesitant about increasing the requirements, if this would benefit 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?*

The VEB regards the statutory report as the key document for communication with providers of financial capital, especially shareholders, and other stakeholders. The statutory report should be defined as the corporate report and contain the following three parts:

Part 1: the annual report

Part 2: the annual accounts

Part 3: the auditor's opinion

The VEB recommends the annual report (part 1 of the statutory report) is prepared in accordance with the IIRC integrated reporting framework (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 with a strong legal status in most jurisdictions, whereas a separate document lacks a legal status. The VEB expects 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) The VEB strongly recommends the continued inclusion of the full and unabbreviated annual accounts as part of the statutory report. The full and unabbreviated annual accounts are of critical importance to the providers of financial capital and should remain part of the key document for communication with the primary users.

4) An annual report prepared in accordance with the IIRC integrated reporting framework will be subject to the external auditor's consistency check alongside 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 rigour of regulatory bodies.

The VEB therefore suggests the IIRC adds to the framework a requirement that the <IR> framework should be used to prepare the annual report of a reporting company.

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?*

The VEB is hesitant about the wisdom of creating a shortlist of qualified authoritative sources in this early phase of integrated reporting, since this may hinder emerging high-quality sources from gaining acceptance. The VEB therefore limits its answer to mentioning a number of obvious sources like those mentioned in the preamble of the European Commission proposal for a Directive on non-financial and diversity information dated 16 April 2013, preamble number 7. These include 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 Organisation 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.*

The providers of financial capital, more precisely the shareholders and debt-securities holders, should be the primary intended users of an integrated report (paragraph 1.6-1.8). This means the integrated report should primarily target these groups.

The VEB also supports the aim of establishing a principles-based approach for the framework. The VEB expects this approach will avoid a 'checking the box' mentality and stimulate integrated thinking and innovation in reporting by companies.

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, the VEB agrees. The definitions of the capitals identified seem correct. Nevertheless, while the VEB expects the capitals mentioned in the framework to be suitable for most companies, there should be a possibility to deviate.

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

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

The VEB completely agrees with Eumedions statement in their reaction on this consultation paper which states companies may interpret this diagram as a hint that the Framework will ask them to find a hierarchy in the capitals, and rationalise their specific hierarchy. A hierarchy in the capitals will cause confusion for investors: if capitals are defined as being part of another capital, there must be eliminations as well, otherwise this may result in double counting in assessing value creation. Or does the IIRC aim to make natural capital (or whatever capital a preparer defines as all encompassing) a common denominator for everything? The VEB is not in favour of this focus on any hierarchy in the capitals.

Instead, the VEB suggests adding to the framework the principle that each of the capitals described should be defined by a company to mutually exclude the other capitals. For the sake of comparability and ease of use, it will be beneficial for the primary users to have a common approach to such definitions, which could either be agreed upon by those preparing the framework or could be proposed by the IIRC after consultation.

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?

The VEB prefers 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.'1.

1 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, the VEB agrees 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 takes the primary intended user as the starting point for judging whether a matter is material. The phrase 'in the view of senior management and those charged with governance' should be deleted,since paragraph 5.17 of the framework is already sufficiently clear on who is responsible for producing the <IR>. It is also not consistent to refer to responsible management or individuals in section 3D only.

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

The VEB supports the framework's description of the materiality determination process. Given the importance of corporate control and risk control for companies and the impact of these issues on the strategy and revenues of a company, the VEB suggests this determination process is the responsibility of the Chief Risk Officer or Chief Financial Officer.

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?

The VEB is in favour of adding the requirement (i.e. bold italic) that those charged with governance provide a statement of compliance to the <IR> framework. It is already very common for those directors 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 the VEB's answer to question 2, the reliability of integrated reporting should also be demonstrated by a consistency check executed by the external auditor. This consistency check is safeguarded by VEB proposals 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. The VEB would like the IIRC to continue to refrain from setting standards for audit. This is in line with paragraph 5.21 of the framework. The VEB strongly believes setting standards for audit is outside the scope of a standard setting 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. The VEB agrees both are important. However, this does depend on the position of the investor and his relationship to the company. When an investor has invested in a company, being able to analyse that company's performance over time is more important than comparability with other reporting companies. When an investor wants to make an investment it is more important to be able to look at comparisons with other reporting companies.

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?*

The framework already requires disclosure to the governance body with oversight responsibility for <IR>. In line with the answer to question 13, VEB is in favour of adding the requirement (i.e. bold italic) that those charged with governance provide a statement of compliance to the <IR> framework. It 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?*

The VEB sees no role for the IIRC to provide guidance on audit. That said, the VEB recommends a consistency check for the annual report prepared in accordance with the IIRC integrated reporting framework as a minimum start point. This would be similar to the current, mandatory check applied by external auditors on whether the annual report is consistent with the annual accounts. The VEB concurs with the view that entities may seek external independent assurance and that this is 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 VEB has strong views on this issue. 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 the auditor cannot audit certain parts, the auditor's report should reflect these findings specifically. Any inability on the part of an external auditor to provide assurance, may not necessarily imply the framework (or the auditor) is failing. Nevertheless, the company reporting on an integrated basis will have to decide if this auditor is 'fit for purpose'. It is up to the IIRC to evaluate over time whether the framework could be improved for better auditability; and it is up to the external auditors to see what other ways may exist to provide any desired assurance. At this phase of the framework in particular, the reporting needs of the primary intended

users should dominate the framework design, 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?

The VEB expects investors to benefit significantly from the insight requirements the draft framework sets for integrated reporting. The <IR> framework may enhance not only investors' capital allocation decisions, but also facilitate the engagement of investors with reporting entities. The VEB foresees that producing an annual report according to the framework may prove to be a challenge for companies, especially the first time. The <IR> framework will prove to be helpful for companies as well as investors, as it drives integrated thinking . It has the potential to significantly reduce risk for businesses and for investors and outlines the many insights investors need in terms of risk, business and strategic developments as well as management's long-term outlook.

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?

1. How companies can 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. Try to get the IIRC integrated reporting acknowledged by regulators and government bodies so that <IR> in the near future will be the only standard on reporting.

Other

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

No comments.