

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

Organization name:	<input type="text" value="International Governance and Performance (IGAP) Research Centre, Macquarie University"/>
Industry sector:	<input type="text" value="Not applicable"/>
Geographical region:	<input type="text" value="Oceania (Australia & New Zealand)"/>

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.

We are pleased to have the opportunity to comment on the Consultation Draft of the International <IR> framework, and welcome the IIRC's initiative to recognize a much wider range of 'capitals' and 'values' within organizations' primary reports. In finalizing the <IR> framework, we encourage the IIRC to give particular attention to the following key matters:

1. Clarifying the relationship between <IR> and other reporting systems, especially how the value-creation (<IR>) and impact-assessment (GRI) frameworks can be reconciled in practical reporting context, such as when determining materiality;
2. Further acknowledging potential conflicts between creating value for providers of financial capital and other stakeholders' concerns, and providing greater guidance on managing and reporting such conflicts;
3. Increasing the comparability of <IR> by expanding the 'core' of issues and methods that all organizations using IR are encouraged to adopt;
4. Providing a more robust definition of 'good' governance.

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 IIRC's adoption of a principles-based framework in order to avoid boiler-plate disclosures. However, a key feature of a reporting framework that is useful to stakeholders - including providers of financial capital and others groups - is that reports are comparable within the same organization, and between organizations over time (as noted at 3.48). To further improve comparability of <IR>s, we encourage the IIRC to expand the 'core' of reporting requirements and methods common to all <IR>s to include: (i) higher minimum standards of disclosure;(ii) greater specification of key components; and, (iii) further definition of key terms.

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?*

We agree that <IR> should complement - rather than replace - existing sustainability reporting practices. However, the IIRC's 'value-creation' approach to non-financial reporting is significantly different from the 'impact-assessment' approach used by the GRI, with consequent differences in practical reporting processes such as materiality. Hence, users of <IR> would benefit from greater guidance on how <IR> and GRI4 can be complementary in a practical reporting context; for example, by clarifying differences in the materiality determination processes of <IR> and GRI and which - if any - would take precedence where both reporting frameworks are applied.

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?*

An online database of best practice reporting methods and indicators for <IR>s would not only assist practitioners, but also - if widely adopted - improve the comparability of reports for stakeholders. Given the advances in non-financial reporting practices such as in carbon and water accounting, the database should include best practice reporting methods in these and similar areas.

Other

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

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?*

We agree that the IIRC's 'six capitals' approach is a useful method of recognizing and communicating the wide range of values and stakeholder interests that an organization's activities can affect, especially in comparison to traditional financial reporting. However, the draft framework would benefit from greater recognition of potential conflicts between stakeholders, especially where an organization's activities diminish the actual or potential value of 'capital' owned by, or shared with, other stakeholder groups (2.23). For example, organizations may secure long-term access to raw materials such as water, mineral resources or air (2.28) at the expense of other stakeholders' access to these resources, as stakeholder groups have contended in relation to coal seam gas exploration in Australia. The <IR> framework would benefit from additional guidance on when reporting these kinds of conflicts is material. A useful improvement would be to provide further clarification on what constitutes the 'legitimate needs, interest and expectations' of other stakeholders that an <IR> should include or acknowledge, especially on key issues of natural and human 'capital' (e.g. workplace health and safety).

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

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?*

Business model (Section 2C) continued

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?*

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)?*

Other

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

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?*

We do not agree with this approach to materiality, and recommend that two issues be addressed in a revised version. First, materiality in <IR> needs to address cases where organizational activities have a significant impact on non-financial stakeholders, even where these activities do not directly affect the assessments by providers of financial capital. This broader concept of materiality is implicit in the Consultation Draft Framework's guidance that an <IR> consider the 'legitimate needs, interests and expectations of stakeholders'. Second, the approach to materiality could be revised to reflect the primary focus of <IR> on issues that affect organizations over the longer-term (1.8), and so to give greater weight in materiality decisions to the assessments of providers of financial capital with a longer-term horizon.

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

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?

We recommend that the reliability of an integrated report be demonstrated through a combined assurance approach utilizing both internal auditors and external auditors, and benchmarking against pre-existing and robust external indicators. The combined assurance approach is defined in the King III Code (2009, p. 50) as 'Integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies, and optimize overall assurance to the audit and risk committee, considering the company's risk appetite.'

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

Other

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

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).

The present requirement for an <IR> to explain how 'the organization's governance structure support[s] its ability to create value in the short, medium and long term' (4.10) should further incorporate the primary functions of governance. While good governance is part of value creation, the key principles of governance are accountability, transparent processes and ethics. For example, without rigorous governance practices, organizations may create significant value, only for this value to be distributed in inappropriate ways, or through insufficiently robust or transparent processes, between different stakeholder groups. Consequently, we recommend that the primary question on governance in the draft <IR> framework focus on how organizations' governance practices emphasise accountability, transparency and ethics.

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?

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

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 extent of the integrated report that assurance should cover should be Directors' decision based on the elements of the report that are important to key organizational stakeholders.

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.

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).

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?*

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. Relation to other frameworks. The IIRC's approach to reporting based on value-creation is a significantly different underlying approach to the GRI's impact-assessment framework. Hence, further guidance is required as to how these different approaches can be used in a complementary way in a practical reporting context.

2. Further clarification of the legitimate needs, interests and expectations of stakeholders. The draft framework requires that <IR> considers the legitimate needs of stakeholders, but provides no guidance on what constitutes a legitimate or illegitimate need and interest.

3. Best practice <IR>. There has been substantial development of tools and techniques in a range of non-financial reporting areas, such as in carbon and water assurance. Additional guidance and examples of best reporting practice would aid organizations in preparing <IR>s and encourage comparable reports for users.

Other

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

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013