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:	Provider of financial capital

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

Organization name:	Regnan - Governance Research and Engagement
Industry sector:	Financials
Geographical region:	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.

Regnan – Governance Engagement & Research was established to investigate and address environmental, social, and corporate governance (ESG) related sources of risk and value for long-term shareholders in Australian companies.

Regnan's research is used in decisions made by institutional investors, and in directing the engagement and advocacy Regnan undertakes on behalf of: ACT Treasury; BT Investment Management; Catholic Super; Commonwealth Superannuation Corporation; Hermes; HESTA Super Fund; Local Government Super; NT Government and Public Authorities Superannuation Scheme; Vanguard (Australia); VicSuper; and the Victorian Funds Management Corporation.

Regnan is a participant in the <IR> investor network.

We welcome the focus of <IR> on providers of financial capital as the primary audience as this is presently an important gap in sustainability reporting. Corporates' environmental and social sustainability practices in many cases contribute to value, but these are nonetheless often treated as discretionary and expendable unless this value is recognised by providers of financial capital. This represents a disincentive for sustainability practices, and results in inefficient allocation of capital across the economy.

By making the value of environmental and social activities more explicit, more apparent, and more coherent within the overall representation of corporate value, <IR> is likely to drive greater engagement in sustainability by this relatively influential stakeholder group.

We support the aims of <IR> as stated in the CD and consider the draft framework well adapted to meeting them.

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.*

No. We support the guiding principles contained in the consultation draft (CD).

As noted in our response to Q20, we consider it will be necessary for reporters to provide a discussion of how they have implemented each guiding principle (not only materiality, as currently set out in the CD). This will enable scrutiny by those responsible for approving the report's publication, report users, and assurance providers (where engaged).

As noted in our response to Q23, we consider further guidance may be needed on implementation in practice, especially in relation to materiality, stakeholder responsiveness (for business management, not just reporting), and connectivity; noting that the background papers have begun this work.

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?*

Partially agree. We consider interaction between different reports to be a key unresolved question for practical implementation of <IR> and anticipate that further guidance will be required in time. We accept that it may be too soon to provide detailed guidance in the framework, but this aspect should be a focus of reporting pilot program activities.

Considering the pilot reports we have viewed (and acknowledging that these are not held out as optimal <IR> reports) many appear to be an evolution of sustainability reports, with insufficient linkages made to value for an audience of financial capital providers.

We see GRI as the leading standard for communications to wider stakeholder audiences, including staff and communities. In our view, <IR> should address the particular information needs of investors, including on aspects not well-covered in existing reporting (eg value-oriented environmental, social and corporate governance) performance.

In our view, an integrated report should not simply be an amalgam of content selected from financial and GRI / sustainability reports. Rather, we anticipate <IR> will require a fresh perspective on multiple information sources, including efforts to make connections between currently disparate content, and to elaborate the linkages to value creation over time. Without this re-examination, the potential benefits to both the reporting entity and report users may not be achieved.

In our view, how to best draw in the valuable insights and content gained through sustainability reporting experience needs further consideration and, potentially, guidance from the IIRC and GRI.

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?*

Such a database may be a useful starting point. But, in our view, the majority of current authoritative indicators will not meet <IR>'s aim of focussing on outcomes, rather than mere outputs.

If IIRC chose to make such a database, we suggest it be clearly positioned as a database of current practice and that IIRC work to encourage further evolution of indicators of outcomes.

We welcome the guidance in para 4.31 on characteristics of suitable quantitative indicators, including the focus on presenting and reporting back on targets and forecasts, presenting multiple periods, and benchmarking.

While we are strongly in favour of a focus on comparability, we do not consider a database of indicators can achieve this. Rather, we consider comparability will evolve over time, as it has done with key financial metrics, as providers of financial capital seek to use the content in integrated reports and apply pressure for the most useful metrics to be produced comparably by reporters.

Other

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

We support the definition of <IR> stated in the CD.

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 with the approach. We consider the capitals a useful schema to support thinking about areas of impact and we see the groupings adopted as appropriate for this.

We consider it appropriate that the CD characterises the capitals model as part of the theoretical underpinning of <IR> and a benchmark to ensure the organisation does not overlook a capital that it uses or affects. We agree that reporters should not be constrained to organising their reporting around these groupings.

We welcome the recognition of social and relationship capital as a distinct aspect, and the explicit recognition of business partners within this. We observe that social and relationship capital generally, and business partners outside operational control in particular, are often poorly managed by business and insufficiently factored in by markets, even where highly relevant to value creation over time.

We also welcome the focus on outcomes, rather than mere outputs. In our view, a large part of the challenge of <IR> lies in this step and this is poorly understood at present. It may remain an ambition rather than something fully actualised. Nonetheless this focus in necessary to achieve the aims and potential benefits of <IR>.

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

No further comments.

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?

Yes. We agree with the business model definition. While acknowledging there are other valid ways to conceptualise a business model, we consider this one useful and adapted to the purpose of producing an <IR>.

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 the definition. We anticipate that it may take time, and perhaps further guidance, before it is well understood and able to be rigorously applied.

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 further comments.

Other

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

No further 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?

Yes, we agree with the approach to materiality. As noted above, at Q4, we strongly agree with the primary intended report users being providers of financial capital. Increasing the sensitivity of financial flows to all measures relevant to value, including material ESG factors, should be <IR>'s principal focus.

We consider the definition of materiality is consistent with numerous precursor attempts to define materiality. We note the reliance on management judgement and consider this necessary, while acknowledging that the management perspective is merely a perspective and may be flawed and incomplete. Other principles address the need for management's judgement to be informed by a range of external views and rigorous attempts to inform itself about dependencies and outcomes. Reference to this here would be a welcome clarification (fostering connectivity and integrated thinking).

Further guidance may be needed on practical implementation of the principle and its interaction with other principles. For example, a materiality process should challenge internal assessments of what is material to financial value, using stakeholder views as an input, and should test the extent to which management and those charged with governance have a holistic understanding, versus one blind to some material aspects relevant to value. If <IR> is to draw out aspects not captured by the current financial reporting paradigm (which is also organised around materiality, albeit differently defined) it will be necessary to hard-code the requirement to regularly test and challenge perceptions of what is material.

We see the public reporting aspect of <IR> as enabling feedback on management's view of materiality and thereby enhancing integrated thinking. A reporting entity that is explicit about the outcomes of its materiality assessment will allow this assessment to be scrutinised and challenged; which serves to increase the rigour of its understanding and decision-making.

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

We agree reporting entities should be required to disclose the process it has applied in determining materiality (para 4.5 and 5.13 of the CD). This will aid in stakeholder scrutiny and feedback and gives a basis for which any external assurance on materiality could proceed.

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 believe more guidance should be given on methods for and expectations of reporters in ensuring reliability. Further, rather than stating it 'may be' appropriate for an IR to describe the mechanisms employed to ensure reliability, we believe this should be a requirement. Information about how the principle has been applied is important to enabling stakeholder scrutiny and feedback and to provide a basis for which any external assurance on reliability could proceed.

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

The statement on balance in section 3.33 that an integrated report has 'no bias in the selection or presentation of information' appears unrealistic and, to some extent, in conflict with the intention that an <IR> present a company's own unique value-creation story. Any account is inherently from a perspective and thus, inherently biased.

We agree with the statement of the principle, ie, 'all material matters, both positive and negative, in a balanced way'. Our concern about the additional guiding text could be addressed by some rewording, for example to no 'undue bias'.

In practice, we see expanded guidance on methods to ensure balance as more valuable than absolute statements. Further, such guidance provides a focus for internal review and the work of external assurance providers.

Other

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

We are strongly in favour of a focus on comparability and welcome the guidance provided in the CD on this. We consider comparability will evolve over time, as it has done with key financial metrics, as providers of financial capital seek to use the content of integrated reports and apply pressure for the most useful metrics to be produced comparably by reporters.

We are also in favour of a focus on conciseness. It is likely that some stakeholders will seek more detailed discussions on particular issues of concern and that reporting entities should and will continue to respond to these information needs. We note the recognition in para 3.29 of the value of cross-references and links to more detailed content elsewhere and would add that cross-references and links within the report should also be given consideration (including to support connectivity of information).

In regard to stakeholder responsiveness, we welcome the recognition that the report should be informed by and should report on engagement with stakeholders that occurs regularly in the ordinary course of business (para 3.18). We are concerned that too often in current practice, stakeholder engagement processes are created ‘for’ reporting, either in isolation from or in the absence of stakeholder processes for business management. Such processes make limited contributions to integrated thinking. In this way, would welcome even greater emphasis on linking the report to existing stakeholder processes rather than creating processes for the report.

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).*

We welcome the specification of business model as a content element - that is, as something that must be reported in an integrated report. While the business model may be more fully detailed in other communications, we believe it belongs, at least in summary form, in each <IR>.

We welcome the guidance on organisations with multiple business models. We acknowledge that some entities are genuinely acting in an investment management capacity and that, in such cases, this should frame their reporting. However, we are concerned that this approach (in para 4.25) risks being overused. Further, even where it is appropriate that the <IR> focus on the investment management business, some content about investee businesses should also be provided, particularly in relation to risks and performance (outcomes). We would welcome the guidance being clarified or expanded to address these concerns.

We welcome the clear requirement that an integrated report must state the 'specific opportunities and risks' the entity faces, not provide a boiler plate of all potential risks or merely a description of its risk management processes (section 4C). We consider this information is critical for providers of financial capital and currently poorly addressed in much reporting, despite existing mandatory requirements.

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?*

We agree that identification of the governance body with oversight responsibilities for <IR> should be an 'in accordance' criterion for <IR>. We consider the framework should include a requirement for the report to be 'signed' by this body (ie, if the body is the board, the report should be signed by the board chair).

We consider the usefulness and quality of integrated reports to be significantly enhanced by ultimate responsibility for it being placed with the highest governance level within a reporting entity (in the listed entity context: the board elected by shareholders). Lack of explicit responsibility would diminish the opportunity for <IR> to support integrated thinking at the highest level.

Explicit involvement of those charged with governance adds weight to the disclosures with providers of financial capital and creates a clear basis for the disclosures to form part of the regular dialogue between these groups.

We consider there should be an explicit statement by those charged with governance acknowledging their responsibility for the report and approving its content. In this regard, we seek that the statement described in para 5.18 be elevated (from 'may include') to, at least, a strong recommendation if not an 'in accordance' requirement.

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

We note, particularly in Australia, concern about implications of <IR> for director's liability. The discussion about appropriate levels of liability for directors is an ongoing one in Australia and has not been triggered by <IR>.

We consider that the <IR> framework, as stated in the CD, presents little difficulty in this respect and no extension of director obligations. In this regard, we reference the Australian Securities and Investments Commission (ASIC) Regulatory Guide 247 on Effective Disclosure in an Operating and Financial Review. Finalised in March 2013, the guide is, in many respects, consistent with integrated reporting proposals. The guide has clarified that, in ASIC's view, current Australian corporate law requires reporting entities to describe:

• The overall business strategies relevant to the entity's future financial position and performance;

• The entity's prospects in terms of future financial performance and financial outcomes; and

• The specific material business risks (not merely risk management processes) including environmental and other sustainability risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosed.

Further, we consider any director's liability concerns should be framed as a question about local laws governing directors' duties generally and, if a clear problem is agreed to exist, it should be addressed through changes to these laws, rather than changes to the <IR> framework.

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?

We note that the CD does not contain any assurance requirements. We agree with this approach.

While we value assurance, we are concerned that making it an 'in accordance' requirement may be a barrier to uptake in the early stages. As stated in our response to Q17, we prefer the focus to be on a requirement for sign-off by those charged with governance. In our view, decisions on assurance (whether, what, who, to what extent) should rest with those charged with governance. This enables report users to reward those with superior assurance approaches, and to apply pressure for improvement where practices do not meet user needs.

We consider reporting entities should not be unduly constrained in their choice of assurance provider, for example, to only utilising registered company auditors. We consider different auditors have different relative strengths and may assist reporters to improve different aspects of their reporting practice.

We consider more work needs to be done to evolve a 'best practice' framework for assurance of extra-financial material, drawing on both financial and sustainability assurance practice. We would welcome IIRC's involvement in efforts to achieve this.

Where assurance has been undertaken on the integrated report, we consider it appropriate that this be disclosed in the integrated report. As assurance practice with respect to extra-financial material varies a great deal, we consider minimum details should be provided, including the qualifications of the auditor, scope, procedures and conclusions. This enables stakeholder scrutiny and feedback on assurance adequacy.

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.*

Consistent with our prior responses, we consider it will be necessary for reporters to provide a discussion of how they have implemented each guiding principle (not only materiality, as currently set out in the CD). This will enable scrutiny by those responsible for approving the report's publication, report users, and assurance providers (where engaged).

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).*

In respect to reporting boundary (section 5G), we welcome the recognition that opportunities, risks, and outcomes beyond the financial reporting entity can have a material effect on the ability of the reporting entity to create value over time. In our observation, such risks, opportunities, and outcomes are often overlooked because the lack of direct control challenges traditional management thinking and reporting systems. Given this, we consider additional emphasis and explanation in the framework would be valuable.

It may be beneficial to suggest reports include explicit comments on this aspect, including the option to state within the report that there are no additional opportunities, risks, and outcomes beyond the reporting entity requiring disclosure.

We would also welcome further focus on this aspect in the IIRC's work in implementing the framework.

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 consider the framework is appropriate for use now. We consider uptake of <IR> has the potential to enhance value creation overtime:

- in reporting entities, through embedding integrated thinking, and

- in markets, by supporting better financial decision making.

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?

We consider priorities for further explanatory material should be:

a. Practical guidance on implementing the 'guiding principles', especially materiality, stakeholder responsiveness (for business management, not just reporting), and connectivity; noting that background papers have begun this work.

b. Interaction between different reports, especially how best to draw in insights and content gained through sustainability reporting experience.

c. Recognising and reporting on material risks, opportunities, and outcomes outside the financial reporting boundary.

Best practice assurance models should also be addressed. IIRC's involvement in this would be beneficial.

Other

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

We would welcome the IIRC outlining its plans for promoting uptake and embedding of the <IR> framework after its release.